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TAXATION AND TAXES

IN THE

UNITED STATES

UNDER THE

INTERNAL REVENUE SYSTEM

1791–1895

AN HISTORICAL SKETCH OF THE ORGANIZATION, DEVELOPMENT, AND LATER MODIFICATION OF DIRECT AND EXCISE TAXATION UNDER THE CONSTITUTION

BY

FREDERIC C. HOWE, A.M., PH.D.

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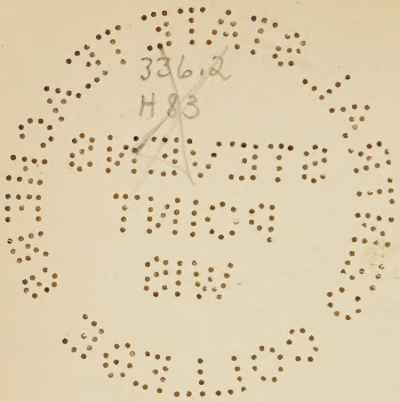

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PREFACE.

The present essay is the development of an investigation begun some years ago of an unimportant portion of our Internal Revenue System. At that time the federal revenues were largely in excess of all current demands of the Treasury; and the policy of the party dominant in the councils of the nation seemed to be towards the gradual reduction, if not the permanent relinquishment, of all of the internal or excise taxes.

With the alterations of the customs schedule in 1894, however, and the diminution of collections from external sources, it became apparent that further recourse to inland objects would be necessary; and in view of the paucity of literature bearing upon the Internal Revenue System, it seemed that a narration of the history of a department of our fiscal service, which produces at the present time upwards of one hundred and forty-five millions of dollars, or nearly forty per cent of the total collections of the federal government, would not be untimely or wholly devoid of interest. And the experiences herein recounted most clearly indicate how almost inexhaustible are the sources of taxation as yet untouched of which the Treasury may avail itself in case of need, and show an array of unused taxes and unopened resources unparalleled in contemporary budgetary history.

I desire to make acknowledgment of the assistance rendered in the preparation of so much of the following pages as covers the period of the Civil War to the learned researches of Hon. David A. Wells, the chairman of the Revenue Commission of 1865, and the later appointed Special Commissioner of the Revenue. The student of this period must recognize his indebtedness to the work of this eminent economist and statistical expert, whose careful and scholarly investigations of almost every phase of the revenue experiences of the time, as well as the industrial aspects and influences of the same, are an inexhaustible fund from which to draw, and greatly alleviate the labors of those who may follow after him in a field which he has made completely his own. In that portion of the essay which relates to the taxation of distilled spirits, as well as the relation of the excise to prices, wages, and industry, I have made liberal use of his investigations, although I have taken the liberty of differing from some of his conclusions.

I am further indebted to Professor Richard T. Ely of the University of Wisconsin for many kindly aids and suggestions as to the scope and character of the work, as well as for encouragement in its completion. I am also under obligations to Professor Charles H. Haskins of the same university, and Dr. Charles J. Bullock of Cornell University, for reading the manuscript, to whose kindly criticism and suggestions some important changes in the plan of the work are due. I am also greatly in debt to Professor David Kinley of the University of Illinois for reading the proof-sheets.

FREDERIC C. HOWE.

CLEVELAND, OHIO, *March*, 1896.

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INTRODUCTORY.

The history of the first century of our national life naturally divides itself into three periods, quite distinct, and characterized by political ideas more or less diverse. The first is the tentative, experimental period immediately subsequent to the organization of the government under the new Constitution, when the nation, timorous of self and even more apprehensive of lapsing into state anarchy, gathered itself together for the work of unification; when the government, endowed with unusual powers and blessed with guiding hands, possessed of the confidence of all, aimed, by the utilization of the powers entrusted to it, to strengthen the federal framework, and repair the evils engendered by the impotent Confederation. Conscious only of new strength, and heedless, if not ignorant, of the hidden springs of State jealousy which it offended, the Federalist party was led into excesses, which the people, sensitive of any impairment of the prerogatives of the States, later resented at the polls. Nationalism attempted too much, and recoiled upon itself. The centralizing tendencies of Hamilton, looking to a high tariff, a federal excise, and a national banking system, all encroachments upon the powers of the States, were in advance of public sentiment, and militant federalism was forced to retire before the prejudices of State conservatism. The Union must be

conserved, all agreed, but its flight must not be too high. Increase of power was felt to be cousin-german to abuse of power; and democracy, in the minds of many, was only consistent with little government.

This conservative attitude, with respect to the importance of the States, found frequent expression in the sentiments which controlled political thought and action during the long period which extended from the opening of the century down to the outbreak of the Civil War; a period when the limitation of governmental functions to the smallest possible compass was the aim of the party in power, and "let alone" its conscious attitude towards internal affairs. It was a period of political segregation along economic lines, of extreme simplicity in manners and customs, of wide diffusion of comfort and wealth, and of little diversity in industrial life. During this period the financial policies were simple. A low tariff sufficed for all the needs of a frugal administration of affairs; and, saving the temporary war duties imposed during the emergencies of 1812 and the few years following, no attempt was made to derive revenues from internal sources.

With the outbreak of the Civil War, however, necessity enforced a more liberal interpretation of the Constitution, and the next few years witnessed a radical change in political ideals, till these were brought more into harmony with the broader, fuller national life upon which the country was entering; for, just as the period antecedent to 1861 is characterized by restricted financial operations, moderation in taxation, and deficit financiering, so, since that time the pendulum has swung to the opposite extreme, and the tendencies dominant

during the past three decades have been towards the fullest possible utilization of constitutional powers, and the gradual increase in governmental activities.

Revenues extraordinary have been extracted from the people, which have been disbursed with but little regard for economy. Instead of a tariff for revenue only, the machinery of taxation has been made to do service to special interests; while in place of the tentative internal revenue system, so ungraciously sanctioned in cases of emergency by earlier administrations, a permanent excise has become a recognized portion of our revenue service.

Of this constitutional development the history of our budgetary management is but the reflex. The position occupied by the customs and internal taxes is but the mirror of opinions prevailing as to the nature of the Union; and it was not until the war had laid constitutional scruples at rest that the latter were discussed at all dispassionately, or escaped the realm of purely partisan agitation.

This constitutional development is reflected quite graphically in the revenues and expenditures of the Treasury, and it may not be impertinent briefly to consider them.

Even in the early days of the Republic, there is noticeable a persistent tendency of expenditures to increase more rapidly than population. From 1792 to 1798 disbursements rose from $1,877,000 to $4,623,000. Ten years later they had further increased to $6,504,000, while by 1820 they had still further risen to $13,134,000. From this time on down to the outbreak of the war, even under the restrictive tendencies dominant in the Demo-

cratic party, expenditures rose from an average annual disbursement of $12,390,000, or $1.07 per capita, during the decade extending from 1821 to 1831, to an annual average of $24,740,000, or $1.61 per capita, during the succeeding one. During the next decade, while the total average annual expenditure increased nearly forty per cent, the per capita increase was but about one and a quarter per cent. From 1851 down to the entrance of the Republican party into power, the average annual per capita increase was twenty-six per cent, while the total average annual expenditure grew to nearly fifty-eight millions of dollars.

Marked though these exhibits are, they sink into insignificance in the light of later history. During the five years from 1861 to 1866 the expenditures, exclusive of interest charges and the public debt, reached the extraordinary average of $712,720,000 per annum, being $21.07 per capita in currency, or $14.32 per capita in gold, a rate of increase in currency of 920 per cent as compared with the average of the previous decade. This exhibit would have naught save an historic interest had expenditures returned to a normal peace basis, and the comparative frugality which characterized the seven decades of our history previous to the war again assumed sway. But such was not to be the case. The Constitution had been bent to the breaking-point, and it would not resume its former rigidity. The ease with which heretofore undreamt-of resources could be acquired, and the apparent acquiescence of the people in governmental extravagance, induced a prodigality in the disposition of public funds which has gone on unabated to the present day. Moreover, the passion for spending money,

once acquired, is only relinquished at the mandate of an oppressed people; and the apparent prosperity of all classes, and their acquiescence in the taxes, led to a continuance of the policy inaugurated by the war. For the fiscal year 1867, two years subsequent to the close of hostilities, the total expenditures, exclusive of bounties and payments on account of the public debt, was $191,564,677 (in currency), as compared with an average annual expenditure of fifty-eight millions (in gold) for the decade previous to the war, an increase of two hundred and forty per cent. This remarkable increase is manifest not only in the war, navy, and other departments, but also in the civil list (156 per cent), foreign intercourse (35 per cent), miscellaneous (112 per cent), Indians (60 per cent), pensions (1,929 per cent), as compared with the disbursements for the fiscal year 1861.

During the next five years the net expenditures for war purposes manifest a tendency to decline, with a less than corresponding increase for pensions and miscellaneous purposes, the net expenditures in 1872 being $153,201,856. For six years more a spirit of economy marked the use of public funds, although the gross annual expenditure was reduced but little. From this time on down to the present date the disbursements of Congress have been made with a prodigal hand, and upon few departments of the government has the restraining hand of economy been laid. In 1878 the customs revenue began to increase at a phenomenal rate, which continued unabated down to 1893. The same movement is manifest in receipts from internal sources, despite the constant reductions in the rates. A troublesome surplus

presented itself. Customs duties, instead of being lowered, were raised; and the abatements in the excise taxes gave but a temporary relief, soon compensated by the increase in the consumptive power of the people. An era of extravagant expenditure set in, only surpassed by the experience of the war. Disbursements for pensions grew from twenty-seven millions in 1878 to twice that sum two years later. During the next decade they increased to one hundred and seven millions, while by 1894 they had grown to one hundred and forty-one millions. During the same period Indian appropriations were doubled, as were those for miscellaneous purposes and the navy department.

Thus, for 1894 the total net expenditures were as follows: —

For the civil establishment, including foreign intercourse, public buildings, collecting the revenues, deficiency in postal revenues, refund of direct taxes, bounty on sugar, District of Columbia, and other miscellaneous expenses	$101,943,884 07
For the military establishment, including rivers and harbors, forts, arsenals, and sea-coast defences	54,567,929 85
For the naval establishment, including construction of new vessels, machinery, armament, equipment, and improvements at navy-yards	31,701,293 79
For Indian service	10,293,481 52
For pensions	141,177,284 96
For interest on the public debt	27,841,405 64
For postal service	75,080,479 04
Total expenditures	$442,605,758 87

One of the influences to which this extravagant expenditure is attributable is the policy of surplus financier-

ing, induced by the redundant revenues subsequent to the resumption of specie payments; and the party dominant in the councils of the nation, threatened with a permanent surplus in the revenues, was under pressure to reduce the scope of the internal revenue system, and some few individuals, solicitous for the preservation of existing tariff arrangements, even advocated its entire abolition. But there is reason to believe that the future will see an even greater dependence upon the excise than at present. While the party but recently in power has not seriously imperilled the revenues, the reduction of the customs duties has already rendered necessary greater reliance upon inland sources.

And in order that we may properly consider our present fiscal arrangements, with a view to possible alterations in the future, it is necessary to understand the past. While the abounding prosperity of the nation has rendered the people more or less indifferent to the weight of national taxation, as well as its incidence and diffusion, there are vital questions to be solved in a just arrangement and distribution of burdens. Shall the amount collected upon inland subjects be increased or diminished? Shall regard be had to the "poor man's luxuries," and whiskey, beer, and tobacco be favored by a light tax; or shall we consider the harmful social results incident to such use, and levy rates so high as to prove a deterrent to consumption? Shall the machinery of government be used as a means for the readjustment of the inequalities in the distribution of wealth by a graduated income and inheritance tax; or shall special legislation be carried a step farther, and the system be used for the suppression of such articles as oleomarga-

rine and other products which enter into competition with protected products? These are but a few of the questions which present themselves at a time when the fiscal relations are in an unsettled state. The teachings of the past will aid us greatly in their determination.

TAXATION AND TAXES

IN

THE UNITED STATES UNDER THE INTERNAL REVENUE SYSTEM, 1791–1895.

CHAPTER I.

EARLY ATTEMPTS AT INTERNAL TAXATION.

The immediate cause of the failure of the Articles of Confederation was a fiscal one, and lay in the jealous restrictions imposed by the nascent States upon the Continental Congress. All power to tax was denied the government. Congress, it is true, possessed ample authority to borrow money, but was intrusted with no power to provide for the repayment of the same, save by requisitions upon and recommendations to the individual States, which were pledged upon their public faith to obedience to the same. But this makeshift of State apportionments had early failed through the apathy of the State governments, relieved of the bond of common danger, and oppressed by the burdens of their own local indebtedness. At the same time a depreciated paper currency, issued for the conduct of the war, had undermined the credit of the government both at home and abroad; and this, together with the failure of means to meet the recurring interest charges upon the public

debt, left no avenue of escape from impending bankruptcy, save through the adoption of a new framework of government, or the granting of enlarged powers to the Confederation.

The former alternative was fortunately chosen; and the Constitution of 1787 issued from the hands of the Convention liberal in its grant of that power which is fundamental and most essential to any form of sovereignty, namely, the power of taxation.

By the provisions of this instrument the customs and excise taxes were intrusted to the new federation, while direct taxes were sanctioned, provided they were apportioned among the several States according to their respective numbers.

Strange as it may seem, that section of the Constitution which empowers Congress "to lay and collect Taxes, Duties, Imposts, and Excises" was enacted without opposition or discussion. From an examination of the debates of the Convention, it would appear that this provision, as reported by the committee of final revision, was taken without emendation from the resolutions said to have been introduced by Charles Pinckney; and no exception seems to have been raised to its adoption. In fact, from the tone of the discussions and the disproportionate amount of time devoted thereto, it would appear that the Convention apprehended, as not wholly improbable, a continuance of the old plan of raising revenues by means of requisitions upon the States; for we find considerable solicitude manifested, and several resolutions were introduced providing that all moneys to be raised for supplying the public Treasury by direct taxation should be assessed on the inhabitants of the

several States according to the number of their representatives.[1]

The plan of direct taxation by apportionment was evidently adopted, with but little appreciation of its import, as a portion of one of the famous compromises of the Convention; yet, even with this safeguard to its use, great apprehension was manifested lest it should be made use of by Congress to the prejudice of certain sections. Soon, however, it came to be viewed mainly

[1] Unfortunately, the journal of the proceedings of the Convention throws but little light upon the attitude of that body to the internal revenue system, or as to what was to constitute "direct taxation." It appears that on the 11th of July there was a debate of some warmth involving the question of slavery; and on the day following Gouverneur Morris of New York submitted a proposition "that taxation shall be in proportion to representation," which was passed with the insertion of the word "direct," so that it stood, "provided always that direct taxes ought to be proportioned to representation." — See 2 "Madison Papers," by Gilpin, pp. 1079–1081.

On the 24th of the same month Mr. Morris said that "he hoped the committee should strike out the whole clause. . . . He had only meant it as a bridge to assist us over a gulf; having passed the gulf, the bridge may be removed." He thought the principle laid down with so much strictness liable to strong objections. — *Ibid.*, p. 1197.

That gulf was the share of representation claimed on the part of the South for their slave population. But the bridge remained, and from thenceforth all parties seem to have avoided the subject; for, with one or two immaterial exceptions, it does not appear that it was again adverted to in the Convention, and the clause was silently incorporated into the Constitution as that instrument was finally adopted. Nor does it appear that on the floor of the Convention any attempt was made to define the words used or the exact construction to be placed upon them.

Under the Confederation, requisitions upon the States were collected by State officials, upon such subjects and by such methods as were employed in the individual commonwealths. Congress came in touch only with the States, not with the citizen.

This plan persisted in the Constitution in the provision relating to

as an emergency tax, to be relied on only in case of the inadequacy of the customs and the excise. Such is the opinion generally expressed in defence of the Constitution by pamphleteers of the day.[1]

That the time would come when wealth would be geographically so distributed that such a plan would be grossly inequitable does not seem to have been anticipated, nor is there any indication in the debates of the Convention of the later hostility to the excise or internal revenue system.

With the organization of the government under the new instrument, public opinion pointed unequivocally to Hamilton as the Theseus alone capable of freeing the chained resources of the country, and of bringing

direct taxation, in so far as it substituted for the rule of uniformity, which prevailed in the case of the excise and impost, that of apportionment upon some specified basis; but as to what was included in the term "direct," within the intent of the framers of the Constitution, it is impossible to more than conjecture. As defined by the Supreme Court, in the several cases which have come before it for adjudication prior to the late income-tax case, just as in the celebrated legal-tender decisions, historic grounds have been relied on so far as ascertainable; but, in the light of the vagueness and poverty of such knowledge, the decisions have turned mainly upon *a priori* grounds of reasonableness and public policy, the courts holding that a strict scientific interpretation of the term "direct" would be repugnant to reason, and would enfeeble the Federal Government, and have arbitrarily assumed that the framers of the Constitution used the expression inadvertently and without fully appreciating its consequences. For this reason the term acquired a legal meaning unknown to the phraseology of finance and economics.

[1] See Alexander C. Hanson in "Pamphlets on the Constitution, 1787–1788," edited by Paul L. Ford, p. 253. Also pp. 160 and 303 of the same. See, further, the assuaging remarks of Hamilton in the Debates of New York on the Adoption of the Constitution, "Elliot's Debates," vol. ii., p. 367. (Pub. by Lippincott & Co.) Also State Papers, Finance, vol. i., p. 66, "Report on the Public Credit."

order out of the existing fiscal chaos; and the new secretary, when invested with office, speedily indicated his intention to utilize to the fullest the generous grant of power which the Constitution conferred, and at once introduced measures for the funding of the public debt, and the assumption of the debts of the States incurred for the conduct of the war, for the authorization of a national bank, as well as plans for an adequate revenue from the customs and the excise. Of these, the problem of ways and means was by far the most pressing, and various forms of customs duties were at once proposed. Madison introduced a resolution providing for an impost somewhat similar to the one so warmly debated by the Congress of the Confederation in 1783; but it did not meet with Hamilton's approval, who preferred a general ad valorem duty on all importations, with a modest excise system based upon wines and spirits, upon which objects he thought it would "be sound policy to carry the duties as high as will be consistent with the practicability of a safe collection."[1]

In all of these proposals the secretary studiously avoided innovations, save in so far as appeared necessary to accommodate the tried experiments of older countries to colonial conditions; and his several reports bear evidence of considerable intimacy with the current financial theories of the day, while the resemblance which his suggestions on the excise bear to English precedents can hardly be considered accidental. In this latter regard the colonies were not deficient in examples; for the greatest diversity existed in the revenue systems

[1] State Papers, Finance, vol. i., p. 15.

of the various States, in all of which, however, the birthmark of their common British origin is apparent.

This diversity has persisted to the present day, and it is only possible to understand the inextricable confusion and hopeless lack of scientific principles in State taxation by reference to the economic and social conditions under which they came into being. Some form of raising funds for communal purposes doubtless existed from the earliest settlements; and, save in a few instances, English forms and methods served as models. But political conditions were simple in the extreme, and the demands for revenue were met by devices correspondingly simple. With growth in the complexity of social conditions, however, recourse to internal sources was rendered necessary; and the more palpable forms of property, as land, horses, cattle, stock in trade, household plate and furniture, and other tangible and easily ascertained forms of wealth, were first chosen for taxation. Land was, of course, the most important, as well as the chief, source of wealth, and in all the States save Vermont and Delaware bore the main burden of taxation. Only about one-half the States assessed houses and slaves; while carriages were taxed in Connecticut, New Jersey, Pennsylvania, Virginia, and Kentucky, and processes of law in Maryland, Virginia, Kentucky, and North Carolina. Seven of the States clung to a uniform capitation tax, four imposed the general property tax upon all forms of wealth, while others specifically indicated the articles to be taxed.

To a limited extent, and under various disguises, the income tax was imposed. Vermont provided "for assessments proportional to the profits of all lawyers,

traders, and owners of mills, according to the judgment and discretion of the listers or assessors;" while Massachusetts taxed "incomes from any profession, faculty, handicraft, trade, or employment." A similar tax is to be found in Connecticut, to be "proportioned to the estimated gains or profits arising from any, and all, lucrative professions, trades, and occupations, excepting compensations to public offices, the profits of husbandry, and common labor for hire." Pennsylvania, the most restive of the States under taxation, met an early requisition of the Confederation by imposing a duty upon all profits arising from offices and positions of profit, trades, professions, and occupations. Similar taxes existed in Delaware and New Jersey, while in several Southern States rates upon certain species of property were estimated upon the incomes arising from them.[1]

In a highly organized community, the desire to disguise the burdens which political life entails has led to their imposition upon exchange in the form of license charges, stamps, and various forms of the excise. But for many years what internal trade existed in the colonies was conducted almost solely by barter. Every household was a community unto itself. Its meagre wants were supplied on the spot. By slow degrees, however, through the introduction of money and the growth of manufactures and towns, markets were created, and the exchange of commodities was facilitated.

[1] Cf "Taxation in American States and Cities," R. T. Ely, Part II., chaps. i. and ii.; also "Robert Morris, The Financier and Finances of the American Revolution," W. G. Sumner, chap. iii., *et seq.*

Hand in hand with this development is noticeable an attempt to utilize the processes of exchange for the purpose of revenue, and at the time of the Revolution excise taxes had been developed to considerable extent in several of the colonies. In Connecticut, not only all ardent spirits, but foreign articles of consumption generally, had been the objects of an inland duty. In New Hampshire, rum, wine, and cider were taxable; in New York, beer, wine, and liquors of all kinds sold at retail, as well as receipts from sales at auction. Spirits were also taxable in New Jersey and Pennsylvania. Five of the colonies were thus familiar with the taxation of spirits in some form or other, but it appears that the taxes were very unpopular and costly of collection. By 1796 they had apparently been relinquished by all of the States, for no reference to them is to be found in Wolcott's report of that year.[1]

In the majority of the Commonwealths the State tax was collected from the same objects as the local rates, while in a few the revenues from certain specified sources were reserved exclusively for the State government. In New York, Pennsylvania, and Maryland, however, the income derived from the sales of public lands and certain other independent sources relieved these Commonwealths from the necessity of any resort to taxation for purely State purposes.

From this it will be seen that the proposals of Hamilton regarding excise taxes were drawn in great part from sources familiar to the people; and the legislation which

[1] For an exhaustive account of the revenue systems in vogue in the various States, see Wolcott's Report, State Papers, Finance, vol. i., p. 414.

followed therefrom was experimental only in so far as it applied to larger areas of territory, and emanated from a new and heretofore unrecognized authority.

In one of his first reports, Hamilton had advocated a moderate tax upon spirits distilled within the United States from foreign as well as domestic materials;[1] but Congress had declined to follow his proposals on account of the alleged centralizing tendencies consequent on the creation of a large body of federal tax collectors. At the same time the sectional interests of the Southern States, with which Pennsylvania was closely identified, united their representatives in Congress in denunciation of the proposed measure, as one that was "odious, unequal, unpopular, and oppressive."

This aversion to internal taxes was partly traditional, partly the result of the absence of legal restraint in those isolated regions where the opposition was most intense. In the South, moreover, whiskey was looked upon almost as a necessity, and a tax upon its manufacture and sale no more defensible than one imposed upon any other product of the farm. In Pennsylvania, also, the feeling was most bitter; and the legislature of that State instructed its representatives in Congress to oppose the passage of such a measure by every means in their power, while a memorial from Westmoreland County (Pa.) insisted, among other things, that to convert grain into spirits was as clear a natural right as to convert grain into flour. An excise "was the horror of all free states," said one vigorous speaker in the House; it was "hostile to the liberties of the people;" it would "convulse the government; let loose a swarm of har-

[1] State Papers, Finance, vol. i., p. 23.

pies, who, under the denomination of revenue officers, will range the country, prying into every man's house and affairs, and, like the Macedonian phalanx, bear down all before them."[1]

It was further pointed out that the First Provisional Congress, assembled in Philadelphia in 1774, had addressed to the people of Canada a memorial which had instanced the English excise as one of the evils attendant upon continued connection with the mother country;[2] as well as the provision for a long time insisted on in the Constitutional Convention of New York, which denied to Congress all power of inland taxation.[3] Both Madison and Hamilton, at an earlier date, had avowed themselves opposed to a federal excise; but Hamilton, when he became Secretary of the Treasury, was led to alter his views from the inadequacy of the other forms of revenue. Already tonnage and customs duties had been provided for, which were estimated to yield $1,467,086, which sum was expected to be increased to $2,000,000 by the proposed duties upon spirits.[4] The estimated annual expenditures of the new government included $630,101 for the civil establishment, while the accrued and accruing interest, with overdue public securities, aggregated $15,000,000 more.[5]

It soon became apparent that the early revenue provisions were inadequate; and two months after his first

[1] Annals of Congress, vol. ii., p. 1844.

[2] Journal of Congress, 1777, p. 62.

[3] Elliot's "Debates," vol. ii., p. 331–411.

[4] Hamilton estimated the latter duties capable of yielding $650,000, the annual production of spirits at this time being approximately 6,500,000 gallons.

[5] State Papers, Finance, vol. i., p. 12.

report, Hamilton, at the request of the House, made a further proposal [1] on means for meeting the interest charges upon the debts of the States but recently assumed. In this report the secretary deserted his early and more tentative policy, and boldly advocated inland duties upon snuff and tobacco, carriages, sales at auction, stamps, and licenses for the practice of law and the privilege of selling wines and spirits, from which combined sources he conceived that half a million dollars could easily be realized.[2] Again in December he reiterated his proposals regarding the fitness of spirits for taxation; and three months later,[3] in the face of the most vigorous opposition, his proposals were substantially enacted by a vote of thirty-nine to nineteen.

By the provisions of this Act graduated duties were levied, which increased from eleven to thirty cents per gallon upon spirits distilled from molasses, sugar, and other foreign materials, according to the proof of the article as measured by Dicas's hydrometer. Upon spirits distilled from domestic articles, as whiskey distilled from grain within any city, town, or village, the rates ranged from nine to twenty-five cents.

For the collection of the duties elaborate provision was made, and administrative machinery created, which has served as a model for subsequent acts. The tax was required to be paid or secured prior to the removal of the article from the place of manufacture, and its collection was intrusted to the supervisors of the revenue. In order to obviate the objection frequently made, that the tax required increased capital in the distilling

[1] On March 4, 1790.

[2] State Papers, Finance, vol. i., p. 43.

[3] By act of March 3, 1791.

business, an option was granted the manufacturer to pay the duty upon the removal of the spirits from the place of manufacture, with an abatement of two per cent thereon, or to give bond with approved securities for its payment within three months after release from the manufactory.

The country was divided into fourteen districts, corresponding with State lines, in each of which a supervisor was appointed; while each district was further subdivided into inspection surveys, with as many inspectors in each as were deemed necessary, whose duty it was to attend to one or more places of distillation. The methods adopted for checking illicit distillation were quite similar to those now in use. The local officer was required to mark and brand each cask in durable characters with progressive numbers, as well as with the name of the distiller and the quantity of spirits contained in the same. This was intended to prevent the re-use of packages, and the marketing of spirits without the payment of the duty.

Upon stills located in the country districts the producer was permitted to pay "a yearly duty of sixty cents per gallon, English wine measures, on the capacity or content of each and every such still, including the head thereof." And if any distiller felt himself aggrieved by the rates, he was permitted to keep a record of the quantity of spirits distilled and sold; which record, when produced and verified before the officer of the survey, was to be accepted as true, and the tax assessed at the uniform rate of nine cents per gallon upon the verified output. The net product of the Act was further pledged to the foreign loans, and was to be

inviolably applied thereto, while any unappropriated surplus was to be used in the reduction of the public debt.

Although the rate imposed was no higher than that collected by Pennsylvania a few years earlier, the producers complained that it was excessive and prejudicial to their business; and to assuage this sentiment several amendments were made which reduced the rates twenty-five per cent upon stills with a capacity of four hundred gallons or more, granted country producers the option of taking out a license at the rate of ten cents per gallon on the estimated monthly producing capacity of the still, or of paying seven cents on the actual amount produced, or of paying fifty-four cents on the annual content of the still. But these alternatives were soon found prejudicial to the revenues; for by the use of improved methods in production, and the forcing of the capacity of the still, distillers, by taking out a monthly license, were able to reduce the per gallon tax to about three cents, while a few years later, according to estimates of Mr. Gallatin, the gallon rate had been still further diminished to about three-fifths of a cent.[1]

But despite these concessions on the part of Congress, the tax remained as unpopular as ever in the Middle and Southern States, where it was felt that it had been inspired by the commercial classes of New England, to whom the tariff was inimical, and who, it was alleged, were desirous of shifting the taxes upon the defenceless population of the interior. Especially strong was this sentiment in Western Pennsylvania and in the mountainous districts of Kentucky, Virginia, and North

[1] Report on Finances, 1801, p. 314.

Carolina, where inadequate facilities for transportation rendered it necessary to transform grain into spirits before it could be carried to an Eastern market, and where money was so scarce that barter was the prevailing means of exchange, and whiskey the recognized measure of value.

It is difficult to appreciate the prevalent hostility to taxation without some reference to the political and social conditions of the time. The prescience of Hamilton had foreseen that nothing would so surely cement the new order of things as an invigorating financial policy, and his opponents were no less quick in suspecting his scheme of such ulterior purpose. The opposition to the tax measures, as well as to the Assumption, Funding, and Bank Acts, was thus largely of a political nature. Party lines were just forming; and the Anti-Federalists found in these measures opportunity for arousing the latent hostility of the people to taxation in any form, and of turning the proposals of the Federalists to political advantage. The traditional aversion on the part of the colonists to excise taxation had not been abated by their long freedom from the visits of the tax-gatherer, and excise impositions were inseparably associated in their minds with arbitrary government. Anti-Federalist orators, therefore, found ready listeners to their utterances, particularly in the rural districts. This disaffection found avidious acceptance in the western counties of Pennsylvania, and it required but little agitation to arouse the feeling into hostile opposition to the enforcement of the Act. Indignation meetings were held, and a committee of agitation in Washington County declared that any one who would accept any

position under the law would be considered an enemy of society. A few weeks later a tax-collector was tarred and feathered, and various acts of violence were committed on other officials. Concessions on the part of Congress, instead of abating the hostility, only rendered it more insolent. Correspondence committees were appointed, resolutions of a revolutionary character were passed, and even secession was talked of. At last the hostility was fanned into armed resistance; and although the Whiskey Insurrection, as it is known to history, was easily quelled, the hostility, though latent, was still cherished by the inhabitants, and the law but feebly executed, while the revenues derived therefrom were insignificant. Thus for the fiscal year 1793–1794, three years after the inauguration of the system, the aggregate receipts were but $344,453, or $50,000 less than the returns during the first year of its operation, and only about one-half of its estimated yield. The tax did not possess the approval of the people, evasion was justified by public opinion, while the salaries of the revenue officers were so inadequate that inefficient men were often intrusted with the administration of the law.

The insurgents had the sympathy of a large portion of the Union; and not a few representatives of the South openly expressed their approval of their acts, finding therein a vindication of their charges. The division in Congress was largely a sectional one, the Northern States being preponderatingly in favor of the measure, while the Southern ones, with Pennsylvania, were arrayed against it. The lines of separation were therefore political; and while the constitutionality of the measure was not questioned, the same tactics and arguments were

adopted which were directed against the Assumption Bill and Bank Act.

But the necessities of the Treasury were not the only motives which urged the secretary to adopt his fiscal policy. They may, in fact, have occupied a subordinate position in his mind; for he doubtless felt the necessity of pre-empting the powers conferred upon the federal government before they should be assumed by the States themselves. It was eminently to be desired that the powers conferred upon the Union should be utilized before the opposition should be sufficiently organized to defeat them. If inland forms of taxation were once assumed by the States, it would be well nigh impossible to oust them, and reclaim the same for the federal government.[1] Moreover, the secretary fully appreciated the effect of bringing the national arm into daily contact with the people; and even a bloodless war, with the consequent display of armed federalism which ensued, may not have been greeted by him wholly with displeasure. The contest was in reality but one phase of the great constitutional struggle which was to be the battle-ground for the next seventy years; and while individual opposition partook very largely of the current aversion to visible taxes, in Congress the battle was a political one, fought along the lines which were rapidly cleaving the country into two great camps. The arguments presented against the tax appear very weak and pusillanimous at this distance, and are substantially reducible to four; to wit, first, that the tendency of the taxes was to contravene the principles of liberty; second, that their influence was to injure morals by inducing

[1] Cf Hamilton's "Works," vol. iv., p. 231.

false swearing; third, that they were burdensome to the public on account of the heavy and oppressive penalties; and fourth, that their tendency was to interfere unduly with industry and the process of distilling. Hamilton disposed of these objections *seriatim*, and demonstrated their falsity, showing that the measure erred rather in leniency than severity, while it bore but little resemblance to the English excise with which the opponents were wont to compare it, and which caused it to inspire so much fear in the public mind.

But comparatively little relief was afforded the Treasury from this source. For the fiscal year 1793 the total receipts amounted to but $422,026.86, distributed according to assessment districts as follows: —

Collections from Distilled Spirits for the Fiscal Year 1793.

DISTRICT.	GROSS AMOUNT OF REVENUE FROM SPIRITS PRODUCED FROM DOMESTIC MATERIALS.	GROSS AMOUNT OF REVENUE FROM SPIRITS PRODUCED FROM FOREIGN MATERIALS.
New Hampshire	$ 209.78	$ 3,413.89
Massachusetts	990.61	185,208.91
Rhode Island	43.20	46,795.57
Connecticut	3,330.71	8,082.36
Vermont	564.54	
New York	860.00	27,204.15
New Jersey	14,975.40	999.84
Pennsylvania[1]		4,099.30
Delaware	1,691.89	
Maryland	14,708.62	6,438.12
Virginia	76,268.30	2,021.90
North Carolina	12,734.81	8.10
South Carolina	7,547.00	
Georgia	640.46	3,189.38
	$134,565.32	$287,461.54

[1] No returns were secured from Pennsylvania from the country districts, where distillation from domestic materials was mainly carried on.

The cost of returning this sum to the Treasury was something less than $70,000, or about 16.5 per cent, while the drawbacks allowed aggregated $60,000 more, so that the expense of netting $292,000 to the Government was upwards of 20 per cent of the gross amount, and 23.5 per cent of the sum actually secured.[1] Such a showing gave much countenance to the charges frequently made that the costliness of the tax of itself rendered it untenable.

But its continuance was demanded by the exigencies of the situation. In fact, a proposition was at that time pending before the House for rendering dutiable carriages, sales at auction, snuff, sugar, tobacco, licenses for selling wines and liquors, and a schedule of stamp duties, by which, if adopted, the revenues were expected to be augmented by about $600,000;[2] and these proposals, in the face of strong opposition on the part of the manufacturing interests, were finally incorporated into a measure bearing date of June 5, 1794.

By the provisions of this Act the duty upon carriages was graduated from one to ten dollars according to the description of the vehicle; but its operation was limited to carriages kept exclusively for pleasure, a provision which greatly impaired its collection. Subsequently, by the Act of May 28, 1796, the rates were considerably increased, and given the following permanent form: —

Coaches driven by postilions	$15.00
Chariots	12.00
Coaches (with panels)	9.00

[1] State Papers, Finance, vol. i., p. 279.
[2] *Ibid.*, p. 276. April 17, 1794.

Coaches (without panels)	$6.00
Two-wheeled top carriages	3.00
Other two-wheeled carriages	2.00

The tax was at once attacked as unconstitutional, on the ground that the duty, unlike all other indirect taxes, was not paid once for all, but annually like any other tax on personalty or real property. Moreover, it was paid originally by him on whom it eventually fell, instead of by the producer, from whom it was to be shifted to the consumer. For these reasons it was held to be a direct tax instead of an indirect one, and consequently, according to the provisions of the Constitution, could only be assessed by apportionment among the States according to the distribution of population. From a purely administrative point of view the tax is to be classed as a direct one; but Gallatin tried to evade the objection by asserting that it fell upon an article of expense rather than an article of income,[1] while the Supreme Court[2] sustained the constitutionality of the law on the ground that only land and capitation taxes were to be regarded as direct within the purview of the Constitution, and that it was inconceivable that the framers of the Constitution should have contemplated a restriction of the federal powers of internal direct taxation solely to those two objects.[3]

[1] Writings of Gallatin (Adams), vol. iii., p. 95.

[2] Hylton *vs.* the United States, 3 Dallas, 971.

[3] The real intent of this provision of the Constitution, like many others, will always be an open question. Probably the two most authoritative persons in the Convention touching the Constitution were Hamilton and Madison, and they disagree. The latter, in a letter of May 11, 1794, speaking of the carriage tax, said, "The tax on carriages succeeded in spite of the Constitution by a majority of

By the terms of the Act of June 5, 1794 a percentage tax, varying according to the description of the property sold, was also imposed upon all sales at auction;[1]

twenty, the advocates of the principle being re-enforced by the adversaries of luxury." (2 Madison's "Writings," pub. by Congress, p. 14.) In another letter, of Feb. 7, 1796, referring to the carriage-tax case, at that time pending in the Supreme Court, he remarked: "There never was a question on which my mind was better satisfied, and yet I have very little expectation that it will be viewed in the same light by the court that it is by me." *Ibid.*, p. 77.

Hamilton also left some words upon the same subject, in a legal brief entitled "Carriage Tax," prepared for the Hylton case, in which he appeared as counsel for the United States. In it he says, "What is the distinction between direct and indirect taxes? It is a matter of regret that terms so uncertain and vague in so important a point are to be found in the Constitution. We shall seek in vain any antecedent settled legal meaning to the respective terms. There is none. We shall be as much at a loss to find any definition of either which can satisfactorily settle the point." Hamilton's "Works," vol. vii., p. 848.

There being many carriages in some States, and but few in others, he points out the preposterous consequences of levying and collecting the tax upon the basis of apportionment, instead of by the rule of uniformity, and suggests that direct taxes be held to be only "capitation or poll taxes, and taxes on lands and buildings, and general assessments, whether on the whole property of individuals, or on their whole real or personal estate. All else must of necessity be considered as indirect taxes." In the case arising under the carriage tax, the plaintiff in error insisted that the tax was unconstitutional because it was a direct tax, and had not been apportioned among the States as prescribed by the Constitution. The argument was heard by four judges, Wilson, Patterson, Chase, and Iredell, of whom the three first named had been distinguished members of the Constitutional Convention of 1787. Wilson had been on the committee that drafted the instrument in its final form, and had been its defender in Pennsylvania. The judges were unanimous in their decision, and the tax was held not to be a direct one in the meaning of the Constitution. Each judge delivered a separate opinion sustaining the tax.

[1] The tax rates upon sales at auction were as follows: receipts from sales of lands, tenements and hereditaments, tools, stock, and

while the privilege of selling foreign spirituous liquors at retail was rendered taxable at the rate of five dollars upon every such place of business. Sugar and snuff were also included in the schedule, the tax upon the former article being laid on the ground that the protection granted the industry by the tariff was a bonus for which the manufacturers could easily afford to pay the slight tax imposed. The tariff duties on sugar ranged from one and a half to nine per cent ad valorem, graded according to the value of the product; and the internal tax, which was assessed at the place of manufacture, was placed at two cents per pound. The domestic manufacturers vigorously protested against the measure, asserting that their industry was so newly established and in such a struggling condition that the tax would prove ruinous to them; but, despite their assertions, the industry steadily increased in importance, and maintained the market against foreign competition.

The duty on snuff, at first a specific tax at the rate of eight cents per pound, was later assessed on the capacity of the mill, as measured by the mortars employed in its production, in accordance with a suggestion of the secretary; but it scarcely paid for the cost of collection and the drawback of six cents per pound allowed on exportation. It was soon seen to have been

utensils, one-fourth of one per cent; while the receipts from sales of goods, chattels, and other personal property, were dutiable at one-half of one per cent. The administrative difficulties which surround such a tax render it difficult of collection, as its assessment depends wholly upon the honesty of the auctioneer. In addition to this, it was very unpopular; as it was imposed upon articles usually sold under the pressure of misfortune, although it did not attach to goods sold upon execution, bankruptcy, etc.

ill advised, and was repealed, after having been collected but twice, namely, in 1795 and 1796.

Three years later[1] taxes were levied upon the following legal instruments, and were collected by means of stamps: —

Certificate of admission to practice in U. S. Courts	$10.00
Certificate of Naturalization	5.00
Any grant under the seal of the United States	4.00
Any exemplified copy of same	2.00
Charter party, bottomry, or respondentia bond	1.00
Any paper requiring seal of United States	.50
Any instrument connected with the execution of a will; any insurance policy; all bonds, notes, bills, etc.	From 10 cents to 75 cents, according to the character of the instrument.

Everything considered, these duties were probably as satisfactory as any portion of the system, inasmuch as they are a perfectly legitimate charge for services rendered; while at the same time they are easy of administration, cheap of collection, and, with the exception of distilled spirits, the most productive form of revenue imposed during this period. But the aid secured from these taxes did not justify the sanguine hopes of the secretary and Congress, who looked for an immediate return of more than half a million dollars from the combined sources. The real collections will be found in table as footnote on opposite page.

As early as 1794 a special Committee on the public credit had advocated a direct tax of $750,000 to be levied upon land, but Congress declined to follow the recommendation.[2] Two years later, the finances remain-

[1] Act of Dec. 15, 1797. The Act was amended March 19, 1798, and Feb. 28, 1799.

[2] State Papers, Finance, vol. i., p. 276.

ing unimproved, and the prospect of foreign invasion appearing ominously on the horizon, the Committee of Ways and Means, "in view of the existing and approaching exigencies," repeated the recommendations of the former committee, emphasized as they were by the continued inadequacy of the internal revenue receipts, and advised the imposition of a direct tax of $2,000,000, to be apportioned among the States according to the constistitutional requirements, and requested the secretary to present a report upon the subject at the next session of Congress.[1]

In December of the same year Secretary Wolcott complied with the request, and included in his report a description of the various systems of raising revenue in operation in the several States. These varied so widely, both in the objects chosen for taxation, as well as in the methods of administration and collection employed, that the secretary felt it would be impracticable to co-ordinate any federal system with them. He therefore advised that any new direct taxes should ignore the State systems, and be wholly independent of

[1] State Papers, Finance, vol. i., p. 409.

SUBJECT.	EST. REVENUE.	ACTUAL RECEIPTS.					
		1795.	1796.	1797.	1798.	1799.	1800.
	$	$	$	$	$	$	$
Carriages	150,000	41,421	40,790	72,336	74,290	79,482	77,781
Stamps	100,000	. .	. .	. .	. .	273,181	232,170
Sales at auction .	100,000	31,593	43,169	37,996	30,515	46,135	51,650
Manufactured tobaccos and snuff,	100,000	9,556	17,405	. .	. .	. .	. .
Sugar	50,000	33,812	63,752	58,921	54,651	55,272	65,240
License	100,000	54,732	63,764	63,862	64,823	66,434	65,159

them. The suggestion was most unfortunate, for to its adoption is attributable much of the unpopularity of the tax. The public would not brook a system which entailed a new body of tax-officials, and created a new and possibly permanent system of direct taxation.

In this report the secretary took occasion to review taxes upon capital, agriculture, and profits, as well as those upon houses and lands and the capitation tax, with the result that the first three were rejected by him, because to tax interest and profits would tend to drive capital from the country, while a tax upon agriculture would not be endured, because it discriminated against that industry. The capitation tax, on the other hand, although of wide prevalence among the individual States, would operate to raise wages, and thus discourage industry, "contrary to the policy of the United States." Houses and land thus became the only available bases of the tax; the former commending itself to the secretary, because "there is no single criterion by which the comparative expenses of individuals can be so fairly estimated as by their dwellings," while slaves were to be included in the assessment, to be taxed at one uniform rate, on the ground that their exemption would be an unjust discrimination against Northern land-owners. Moreover, slaves were looked upon as fixtures in the eyes of the law, and part and parcel of the realty and inseparable therefrom. As against land no reasonable objection could be urged, and the secretary therefore proposed to render it taxable at a uniform ad valorem rate.[1]

During the debates in Congress, the house-tax under-

[1] State Papers, vol. vii., p. 440.

went considerable modification. The secretary, in his first report, had advised the division of all houses into three general classes; but, as finally engrossed, the measure provided for a division into nine classes, rated according to value, and assessable at an advancing rate as follows:[1]—

HOUSES VALUED FROM —	TO BE TAXED AT FOLLOWING RATE PER DOLLAR OF VALUE.
$ 100 to $ 500	.002
500 to 1,000	.003
1,000 to 3,000	.004
3,000 to 6,000	.005
6,000 to 10,000	.006
10,000 to 15,000	.007
15,000 to 20,000	.008
20,000 to 30,000	.009
30,000 and upwards	.010

In the assessment, houses and lands were to be valued separately, so that the tax upon the former became in effect not unlike the French *l'impot mobilier*, or tax on rentals, as enacted by the Constituent Assembly of 1791. The greater part of the yield was expected to be produced from this source; it being estimated that houses would return $1,315,000, slaves $228,000, while the balance, $457,000, was to be raised from an ad valorem rate upon land. The burden of the tax was thus to be cast upon houses; but, as a matter of fact, the return from this source was comparatively insignificant, the tax being shifted quite generally to land. Only one assessment was made under the law in 1801; and the collections proved inconsiderable, only $734,223 being

[1] Act of July 14, 1798. This division differs from the suggestion of Secretary Wolcott, which provided for specific taxes from 50 cents per house on Class I. to $120.00 on Class IX.

realized, although receipts from this source continued to form a budgetary item as late as 1813.

The advent of the Democratic party to power in 1801 was signalized by the complete abolition of all of the taxes so laboriously established by Hamilton and his successor. Jefferson had openly stigmatized the excise system as an "infernal one," and likely to conduce to the dismemberment of the Union, while the party of which he was the chief was avowedly pledged to its abolition. At the first session of Congress, the Ways and Means Committee reported against its continuance. Such an iniquitous system, said the committee, could only be justified by "imperious necessity," — a necessity which at that time did not exist, nor was it likely thereafter to exist. Its repeal was further urged, first, because of "the vexation and oppression" of many of the taxes, some of them being especially obnoxious to the people; second, because of the essential "nature of an excise, which is hostile to the genius of a free people;" while, if further reasons were needed, its retention was inadvisable because of its "tendency to multiply offices and increase the patronage of the Executive."[1] At this time its administration supported four hundred officials at the public charge, while the cost of returning the receipts into the Treasury was nearly twenty per cent, the charges for the fiscal year 1800 exceeding $103,000.

In conformity with the recommendations of the committee, the excise and direct taxes were repealed early in 1802;[2] and from this time down to the outbreak of the War of 1812, no recourse to any form of internal revenue seems to have been contemplated by either party.

[1] State Papers, vol. vii., p. 735. [2] Act of April 6, 1802.

It is somewhat difficult to appreciate at this distance, in view of the multifarious agencies of government which interfere with the individual in the acquisition and enjoyment of his wealth, through the official intervention of the tax-gatherer, the well-nigh universal aversion which existed in the mind of the early citizen to taxation in any tangible form.

Yet there is much to be said in extenuation of this hostility. It is to be remembered that our States did not spring full-grown into life. The taxing systems of to-day are the results of painful experimentation. At this period society, in any organized political sense, had scarcely emerged; and the settlers, residing on isolated farms or in small communities, knew but little of, and cared less for, political association. To them the idea of the State meant but little. They had hewn their own settlement, and enforced the only law they knew, unaided by that which in more advanced communities is man's chief servant, not only of protection, but of production as well. Any government, therefore, which assumed the form of taxation was to the pioneer an unmixed evil, and "hands off" was the sole demand of these children of the frontier. The direct tax especially struck at the settler's home, "an Englishman's castle;" and every citizen felt that he was defending his birthright in resenting the intrusion. The federal arm reached his distant retreat only in the form of the exciseman, a name of itself odious to one of English descent. Moreover, in shaking off the mother country the colonist felt that he had done with the publican forever, and for many years he had been free from his visits. The direct tax also provided for the measure-

ment of windows; and visions of the hated window-tax arose in the settler's mind, — a name as odious to one of Irish descent, which nationality was predominant in western Pennsylvania, as the famous Battle of the Boyne.

Moreover, in any new and undeveloped country, money is scarce, credit has little or no existence, exchange is confined to the simplest forms of transactions, and barter forms the common means of transfer. A duty payable in currency is likely to be a source of great annoyance, and is ofttimes difficult of payment. One cannot read the memorials addressed to Congress, without being impressed with the feeling that this invasion by the government was a real grievance, and, in the eyes of the people a new form of usurpation of the freedom so recently gained, and for which they had so valiantly fought.

At the same time, the administration of the system was inefficient, and the officials frequently venal. Embezzlement was not infrequent, and fraudulent returns diminished the revenues. The inadequate compensation offered failed to secure competent men for the service, and this tainted it with additional odium in the eyes of the people. For these reasons the excise proved much less productive than had been anticipated by its advocates. Thus the direct tax yielded but one-third what it had been expected to produce. The same was true of the other taxes, while the cost of collection was excessive. That a tax shall take and keep out of the pockets of the people as little as possible over and above what it turns into the treasury is one of the first canons by which its availability is to be judged; and, measured by this requirement, the excise was scarcely

defensible. Thus, in 1795 it cost nearly twenty-five per cent[1] to transfer the proceeds of the levy into the Treasury; but from this time on, down to the repeal of the system in 1802, the cost of collection steadily diminished, owing to the improvement in the methods of collection and the growing acquiescence of the people in the taxes. Thus, while it cost $84,973 to net to the Treasury $531,269 in 1795, in 1800, $993,659 was returned at a cost of but $103,785; while, during the War of 1812, the cost of collecting practically the same taxes was reduced to less than five per cent.[2]

The experience recounted in this chapter is mainly interesting as indicative of the spirit of independence and resistance to federal encroachment which characterized America of that day; for, from a fiscal point of view, the system was purely tentative. But it was upon this foundation that the excise systems of 1814 and 1862 were later erected; and the taxes which aroused so much hostility in the days of the nation's infancy, at a later date came to form the groundwork of the system under which we are now living. The theory that luxuries are best fitted for internal taxation has been followed consistently from that day to this; and distilled spirits have become the most productive, if not the most popular, source of revenue upon the whole schedule of taxes.

It required a severe training in patriotism, however, to secure this indorsement from the people, and the

[1] The cost of collecting the duty on spirits of domestic production was 34 per cent, and of foreign production 14.5 per cent. This is an estimate made by Gallatin.

[2] The cost of collecting the internal taxes in 1891 was but 2.8 per cent.

early efforts of the Federalist party were wanting mainly in popular approval; and the persistency with which it clung to its policy, even in the face of almost universal hostility, was one of the main causes, as Hildreth has said, which brought about the downfall of that party.

CHAPTER II.

THE EMERGENCY SYSTEM OF THE WAR OF 1812.

From the repeal of the system so laboriously constructed by Hamilton and his successors, down to the War of 1812, no recourse to internal taxes seems to have been contemplated by the party in power. The government was frugally administered; and the customs, receipts from the sales of public lands, and the arrearages of the direct taxes, amply sufficed for all demands of the Treasury. The public debt, which had been temporarily augmented by the purchase of Louisiana to $80,691,120, was steadily reduced, to the great improvement of the public credit, which at the renewal of hostilities appeared well-nigh impregnable. This gratifying condition of the finances induced a false feeling of security in the public mind, which the reports of the Secretary of the Treasury did not tend to allay. As early as 1807, Gallatin scented the possibility of a controversy with one of the European powers, but quieted any feeling of apprehension by his own confidence in the existing forms of revenue, and in the efficacy of a purely "loan policy" in case of hostilities. Some extenuation of this optimism is to be found in the fact that at this time the revenues were producing upwards of fourteen and a half millions of dollars, while, according to his estimates, future disbursements would not exceed one-half that amount, owing to the temporary cessation of the appro-

priation in behalf of the sinking-fund.[1] One year later he reiterated this confidence, and says: "No internal or direct taxes are, therefore, contemplated, even in the case of hostilities carried on against the two great belligerent powers." [2]

Even after the outbreak of hostilities, he maintained implicit confidence in the public credit as a basis of war financiering, and there is no evidence that he ever abandoned this position.[3] In a financier so astute as Gallatin such an attitude can only be explained on the ground of party expediency,[4] although even this hypothesis is little consonant with his usual independence of thought and action. By 1812, however, he had so far modified his opinions as to acknowledge the necessity of resort to some sort of internal duties, and was led to advocate, in addition to an increase of the customs revenue, a direct tax of three million dollars, as well as a resort to the excise sufficient to produce two millions more.[5] From this we are not to infer that the secretary had abandoned his former attitude. His faith in the loan policy still remained intact; the apparent change of attitude being due to the fact that customs revenues had fallen below the estimates of peace demands, and the new duties were to supplement ordinary expenditure, not to be used as a basis for the conduct of the war. But even these halting measures were only adopted in so far as they related to the customs.[6] The con-

[1] Report on Finances, vol. i., p. 360. [2] *Ibid.*, p. 377.
[3] "Public Debts," H. C. Adams, p. 114.
[4] Schouler, "History of the United States," vol. ii., p. 344.
[5] State Papers, vol. viii., p. 525.
[6] Act of July 1, 1812.

sideration of the excise was deferred by Congress until a later session.

By the summer of 1813, the collapse of the loan policy of the administration was complete; and a special session of Congress was called, to which the President appealed for immediate action upon the finances. Under this spur from the Executive, Gallatin's proposals were in part adopted, and several new sources of internal revenue were opened up. Only those taxes approved by the experience of former years were selected as the basis of the new excise system, but with this commendable modification, that they took into consideration State prejudices; while the important limitation was added that they were to be considered as "temporary war taxes," to continue in force but one year after the close of hostilities, and to be pledged to the payment of the interest on the public debt.

Seven distinct taxes were imposed during this session of Congress, estimated to produce upwards of five millions of dollars. These were, first, a direct tax of three million dollars to be first assessed in 1814;[1] second, a duty upon carriages for the conveyance of persons, to be assessed at rates varying from two to twenty dollars, according to the description of the vehicle;[2] third, a uniform duty of four cents per pound on all sugar refined in the United States;[3] fourth, a license tax upon distillers of spirituous liquors, to be assessed according to the capacity of the still, the duration of its operation, and the material used in production.[4] In addition thereto, stamp duties were to be levied upon all

[1] Acts of July 22 and Aug. 2, 1813.
[2] Act of July 24, 1813.
[3] Act of Aug. 2, 1813.
[4] Acts of July 24 and Aug. 2, 1813.

legal instruments, bank-notes, bonds, and all evidences of obligations;[1] a millage tax upon sales at auction,[2] as well as a further license tax upon retailers of wines and spirituous liquors.[3]

Several modifications in the method of assessing the tax on distilled spirits were introduced, due probably to the suggestions of Gallatin, who, while acknowledging that there was "no more eligible object of taxation than ardent spirits," had strenuously objected to the earlier measures, because they bore unequally upon the different classes of producers.[4] Accordingly the rates upon spirits distilled from foreign materials exceeded those upon the domestic product; while the small manufacturer was further protected by an option to pay on the amount produced, or to take out a license for a limited period, and pay upon the capacity of the still.[5]

The difference in rates upon spirits distilled from domestic and foreign products was due to the alleged perniciousness of rum as a beverage, and the desire to encourage the domestic industry. In the method of collection of the direct tax, decided improvements were also inaugurated. As we have seen, the objects taxable

[1] Act of Aug. 2, 1813.
[2] Act of July 24, 1813.
[3] Act of Aug. 2, 1813.
[4] State Papers, vol. viii., p. 525.
[5] The schedule of assessments was as follows: —

PERIOD.	RATE ON DOMESTIC SPIRITS PER CAPACITY OF STILL FOR DIFFERENT PERIODS OF OPERATION.	RATE ON SPIRITS FROM FOREIGN ARTICLES PER CAPACITY OF STILL FOR DIFFERENT PERIODS OF OPERATION.
2 weeks	9 cents	..
1 month	18 cents	25 cents
2 months	32 cents	..
3 months	42 cents	60 cents

under the earlier measure were land, houses, and slaves, the collections being made under the supervision of federal officials. The same objects were designated under this measure, and the sums chargeable to each State and county were apportioned upon the basis of the census of 1810; but a new provision was introduced, permitting the States to assume their quotas, and collect them as they might see fit, and also to reapportion the sums assigned the counties, where the federal apportionment was deemed inequitable. If assumed by the States and paid into the Treasury within a certain time, a discount was allowed; if not, the excise officials were directed to proceed with the collection of the tax according to law.

Every precaution was thus taken to allay the opposition which the tax was expected to arouse; but just as happened during the later period of the Civil War, the fears of Congress were ill founded. The patriotism of the people was underestimated; for the burdens of the tax were accepted with but little complaint, and paid even with enthusiasm. No assessments were made under the law until the following year (1814), when the resignation of Gallatin threw its administration into the hands of Secretary Campbell, who soon relinquished the portfolio of the Treasury to Andrew J. Dallas of Pennsylvania, an eminent financier, but unpopular with the House of Representatives.

The new secretary found the finances in a most discouraging condition. The Treasury, as he himself says, "Was suffering from every kind of embarrassment." The recent suspension of specie payments by the New York and Baltimore banks, which had been largely

instrumental in the sale of the public securities, had vitiated credit, and dissipated public confidence. The bonds had fallen to eighty and finally to sixty cents on the dollar, while the diminishing revenues were further depleted by payments in depreciated bank-notes and treasury certificates. The estimates for the fiscal year 1814 showed a probable deficit of $31,000,000, and long before its close it became apparent that even with the revenue measures extorted from the last Congress it would be impossible to conduct the war longer on a credit basis. But Dallas grappled with the situation with characteristic energy, and recommended the immediate revival of the National Bank, which was an indispensable agent in marketing securities; and at his instance measures were at once introduced into Congress for the increase of the revenues by taxation.[1] His proposals, however, met with determined opposition from two sources. The Committee of Ways and Means was composed largely of slaveholders, who desired to cut off the tax upon that species of property; while the manufacturers of New England murmured loudly against any increase of the taxes upon their industries, which they maintained were in such a formative state as to be unable to bear additional burdens.[2] Jefferson, though retired from active participation in politics, still exercised a strong influence in the councils of his party, and with persistent determination endeavored to defeat these measures by substituting therefor a loan-policy

[1] See State Papers, vol. viii., p. 854, where Committee of Ways and Means, a few days subsequent to the confirmation of Dallas, makes an elaborate report on the subject of taxation.

[2] Hildreth, vol. vi., p. 543.

of his own.[1] The inherent defects of his proposal, however, prevented its ever coming up for consideration.[2]

In January of the following year (1815), Dallas made a second report, although the one of the preceding October was still under consideration by the House. In this he advocated an increase of the tax upon all kinds of legal instruments, the imposition of new duties upon the dividends of insurance companies and other corporations, as well as a tax of one dollar per barrel upon flour. It is also a matter of interest to note the first proposition for an income and inheritance tax.

The report came at the darkest hour of the war. The political outlook was quite as gloomy as the fiscal one. Disaster after disaster had been met by the army, while a British fleet had penetrated even to the federal capital. And thus, defeated and disgraced everywhere, Congress was called upon to impose increased burdens upon a divided people, who had been led by their own teachings to look upon a tax-gatherer as a thief, if not as a burglar. During the closing days of 1814 new duties had been laid upon pleasure carriages;[3] while upon distillers of spirituous liquors the minimum tax had been increased to twenty cents per gallon, with the option added that a distiller could pay according

[1] Jefferson to Madison. "Works," vol. vi., p. 391.

[2] His hostility was very bitter; and in his correspondence we find him expressing himself as follows: "If anything could revolt our citizens against the war, it would be the extravagance with which they are about to be taxed. . . . The taxes cannot be paid. How can a people who cannot get fifty cents a bushel for their wheat pay five times the amount of taxes they ever paid before? Yet that will be the case in all the States south of the Potomac." — Jefferson to Short, Nov. 28, 1814, "Works," vol. vi., p. 398.

[3] Act of Dec. 15, 1814.

to the capacity of the still, or the amount of spirits actually produced. Licenses were likewise increased fifty per cent, as were the postal and many stamp charges; while the duty on sales at auction had been raised one hundred per cent.[1] In addition, new taxes were laid in response to the secretary's report, and the general charge of the public debt applied to them, upon pig iron, iron castings, bar and rolled iron, nails, and candles at specific rates, while the manufactures from paper and leather, as well as playing-cards, vellum, hats, umbrellas, saddles, bridles, boots, shoes, beer, ale, tobacco, cigars, and snuff were rendered dutiable at ad valorem rates. Upon household furniture and personalty above $200 a progressive tax ranging from $1.00 on the value of $400 to $100 on the value of $9,000 was laid, while watches were taxed under a separate category.[2] The direct tax was also increased to six millions annually, with the privilege of State assumption attached, as provided in Acts of earlier date.[3]

But these measures were destined to be of little service to the Treasury; for scarcely had they received the President's signature, when peace was declared. Almost immediately a marked revival in the customs revenue was manifested,[4] while industry, confined for

[1] Act of Dec. 23, 1814. [2] Act of Jan. 18, 1815.

[3] Act of Jan. 9, 1815. This privilege of assumption was taken advantage of by New York, Pennsylvania, Virginia, South Carolina, Georgia, Kentucky, and Ohio in the levy of 1813, and by New York, South Carolina, Georgia, and Ohio in the levy of the later date. In the other States, federal officers completed the assessment, and made the collections from the individual taxpayers.

[4] The receipts from the customs in 1816 amounted to the unprecedented sum of $36,306,874.

over a decade to domestic expansion, began to recover itself.

As legatee of the war, the Democratic party now found itself burdened with an indebtedness of one hundred and twenty-seven millions; and Secretary Dallas, roughly schooled by experience, and appreciating more thoroughly than Congress the untrustworthiness of the customs revenue, favored the retention of a portion of the excise system sufficient to produce seven millions of dollars as a basis for any emergency which might arise in future.[1] To this opinion Congress deferred by refraining from any immediate action upon the subject. The people paid the taxes without complaint, the reorganization and payment of the public debt being a matter of the first importance. For two years after the close of the war the internal duties were permitted to remain upon the statute books, when Congress, moved by a message from the President, finally determined that no more internal taxes should be collected, save those in arrears, after the year 1817.[2]

The immediate result of this over-confident action was a deficit in the budget, amounting in 1819 to three million dollars, which had to be met by a temporary loan.[3] The deceptive increase in receipts from the customs was but temporary, and due to the abundance of English goods, so long deprived of their most lucrative market, which sought our shores. In fact, had it not been for the arrearages of the direct and excise taxes, which continued to form a budgetary item as late as 1848, the deficiency would have been a recurring

[1] State Papers, vol. ix., p. 16.
[2] Act of Dec. 23, 1817.
[3] Act of May 15, 1820.

one, as the customs receipts seldom sufficed for the current needs of the Treasury.[1] From this time on, down to the outbreak of the Civil War, no recourse was had to internal taxes of any kind, though the Treasury suffered alternately from excessive or deficient revenues.

The distressing embarrassments experienced from too exclusive dependence upon revenues from sources external to the country, and the absence of machinery by which the internal resources of the nation might be immediately realized on, has taught the lesson, to be even more strongly impressed by the experiences of the Civil War, that a sound financial policy always provides in time of peace for the possibility of war; and the experience of the United States proves conclusively that customs revenues are so irregular that the means for immediately realizing upon the proceeds of current industry should never be permitted to get out of running order. The absence of such a system of internal taxation at the outbreak of the War of 1812 was a matter of regret to Secretary Dallas, and certainly offers a lesson in practical policy; for, had such a system existed, the early movements of the war would have been greatly invigorated, the public credit might have been preserved unimpaired, while the pecuniary contributions of the people would have been rendered more effective.[2] Moreover, when Congress did take the matter of inland taxation in hand, it did it so ungraciously

[1] The receipts from the sales of public lands also formed a considerable item in the annual budget; the revenue from this source alone in 1836 amounting to fourteen millions, while during the following year the receipts rose to twenty-four millions.

[2] Cf. Report on Finances, State Papers, vol. ix., p. 2.

as to inspire little confidence and to offer but little relief. Unwise taxes were levied, and false estimates made. For instance, the secretary estimated a return of $3,500,000 from manufactures, while, as a matter of fact, the receipts were only about one-sixth of that sum. From household goods two million dollars were expected, instead of fifty-one thousand actually turned into the Treasury. In all branches of the revenue the same discrepancies might be shown; and especially true was this during the first two years of the system, when assistance was most needed. Throughout its existence the administration was sadly imperfect; and but a portion of the taxes assessed were collected, as will be seen by the following table: —

Taxes Accrued and Collected, with Cost of Collecting the Same for the Fiscal Years —

	ACCRUED TAXES.	AMOUNT COLLECTED.	COST OF COLLECTION.	PERCENTAGE COST.
1814	$3,262,197	$1,910,995	$148,991	7.8 per cent.
1815	6,242,503	4,976,529	279,277	5.6 per cent.
1816	4,633,799	5,281,121	253,440	4.8 per cent.
1817	3,002,000	3,000,000	180,000	6 per cent.

CHAPTER III.

THE PERIOD OF THE CIVIL WAR. (1861-1870.)

During the forty-six years which intervene between the events recorded in the last chapter and the outbreak of the Civil War, no recourse to internal taxation seems to have been contemplated by either of the great political parties; and, saving an occasional difference of opinion over the United States Bank and questions of internal improvements, the Democratic party was able to cling consistently to the heritage of political ideals upon which it had come into power at the opening of the century.

Persistent constitutional jealousies of the federal power defeated every measure for the betterment of the fiscal service. The second Bank of the United States fell before this hostility in 1836, and was treated as summarily as the excise had been twenty years earlier. Plans of expenditure for internal improvements were disposed of in a similar manner, while a vacillating tariff policy stimulated industrial activity one year, only to destroy it in the next. The policies of the various incumbents of the Treasury Department during this period differ only in detail. Economy of administration was the aim of the party in power; and the restriction of governmental functions to the narrowest possible scope, the guiding principle of treasury management.

The era upon which we are now about to enter marks a clearly defined breaking away from such policies. For the first time in its history, American political thought shook itself free from the strict constructionist teachings which had animated all economic legislation for over two generations; for, just as the War of 1812 marks a more or less complete breaking away from an outgrown colonial policy, so the new order, inaugurated by a domestic struggle, developed financial and industrial conditions only commensurate with the new era of national life into which the country was irresistibly tending. The Civil War was a formative period. It was an era of fiscal reorganization, in which old political ideas and the last vestiges of colonialism were being sloughed off, never to be resumed again. The nation had achieved its majority, and the forces which had been gathering strength since the time of Jackson crystallized into permanent form.

At the outbreak of the Civil War the finances were in confusion. Under Cobb, the retiring secretary, things had been going from bad to worse. The tariff receipts had declined, and finally sank so low, during the period from 1857 to 1860, as to require supplemental loans to satisfy the needs of the Treasury. Public confidence had been dissipated in a like manner by the loose fiscal methods known to prevail, while industry suffered under all the evils incident to an unregulated bank currency. Through extravagance, incorrect estimates, and the reduction of the tariff charges, the public debt had been increased to sixty-five millions, which only with some difficulty had been placed upon the market. Secretary Cobb, in his last annual report,[1] had forecast the impend-

[1] Report on Finances, 1860, p. 7.

ing danger, and sounded a note of warning of the approaching political crisis, which was to convulse the country for the next four years; but nothing was done to check the tide of affairs until the advent of the Republican administration under Lincoln, when the work of reconstruction immediately began, and from out the ruins of the fallen *régime* was erected a fiscal order, probably the most extraordinary the modern world has known. From the opening of the extra session of Congress in the summer of 1861, down to the close of that decade, probably more revenue measures were passed than during the preceding seventy years of the country's existence; while the amount of money extracted from the pockets of the people in the form of loans and taxes appears at this day almost incredible. From out the wreckage of the State banks was erected a magnificent national banking system; while the tax legislation, wholly experimental in form, was of such vast proportions and so far reaching in its consequences, that the nation stood astonished at its resources and alarmed for the consequences of its acts.

Accustomed heretofore to a degree of prosperity previously unexampled in the history of nations, the United States had grown rich without having experienced the weight of national burdens, and likewise unconscious of its ability to sustain them. Providentially, the nation's power of endurance was to be tested only by degrees; for had the immensity of the struggle upon which it was entering been apparent at the outset, the country would probably have shrunk from it in despair.

To the extra session of Congress, convened at the call of the President in the summer of 1861, Secretary Chase

submitted measures which he considered necessary and competent to the "speedy and effective suppression of the gigantic rebellion." In it he estimated the probable annual needs of the Treasury at $318,519,518, a sum to be raised wholly by means of loans, while taxes were to be relied upon to meet the annual interest charges thereon, as well as to make up the current deficiency in the civil expenses. His financial policy was based exclusively on loans. No attempt was to be made to meet any portion of the extraordinary war expenditure by taxation, a decision which, like the projects of Gallatin fifty years earlier, seriously imperilled the credit of the government. Of the revenue, the customs, wholly unreliable, was to be the chief stay, and was expected to produce fifty-seven millions, while a direct tax, to be apportioned among the States according to their respective populations, was advocated, sufficient to produce twenty millions more.[1]

In so far as Mr. Chase recommended that the extraordinary expenditure be met wholly from loans, Congress fully concurred; but in the matter of taxation it possessed opinions of its own. The plans advanced by the secretary for the direct tax were promptly discarded as unconstitutional, while the new tariff measure followed lines somewhat different from those laid down in the secretary's report. The apportioned State tax, as finally passed, was for twenty million dollars, which was to be assessed, upon free and slave States alike; while an income tax of three per cent on all incomes over eight hundred dollars was attached to the measure.[2]

[1] Senate Ex. and Misc. Doc., No. 2, First Session, Thirty-seventh Congress.

[2] Act of Aug. 5, 1861.

Even at this time the war was not taken very seriously, and the magnitude of the struggle which was to convulse the nation for the next four years was but little appreciated. For this reason the measures adopted were viewed as but temporary, and did not contemplate a continued or permanent deficiency in the revenues. In the closing days of the year, however, affairs began to assume a graver hue, and the character of the war to be more generally appreciated. Specie payments were suspended by the banks on Dec. 28, 1861; a few months after the government began its issue of demand notes, whose purchasing power steadily declined from the day of issue, while the prices of commodities as steadily rose.

When Congress reassembled in December, the secretary was forced to acknowledge the inaccuracy of his earlier estimates. Instead of fifty-seven millions from the customs, as he had expected, he now felt constrained to reduce his estimate to thirty-two millions, while revenues from miscellaneous sources manifested a like falling off. Neither the direct nor the income tax had as yet become operative, and little could be expected from them for some months at least.

In view of these showings, as well as the fact that the public debt was piling up at the rate of two million of dollars a day, it seemed to the secretary advisable to increase the revenues to ninety millions, by a modification of the customs duties and the direct tax, and the inauguration of an excise system, modelled after that of the War of 1812, and based upon whiskey, tobacco, carriages, bank-notes, conveyances, legacies, and the like.[1] From these combined sources it was felt that

[1] Report on Finances, 1861, p. 15.

every possible demand of the government could be met.

A sound financial policy, as was soon to be demonstrated, demanded much more than this; but Mr. Chase was still enamored with his "loan policy," and imbued with the widely prevalent belief in the early termination of the war; while he feared, along with many others, that a vigorous resort to taxation would weaken the war spirit of the people, burdened as they were with the other consequences of the struggle.

How greatly he underestimated the loyalty and willingness of the people to sustain him in his efforts, is seen from the tone of several memorials presented to Congress by various commercial and scientific associations, praying that more adequate measures be taken for the prosecution of the war. The New York Chamber of Commerce advocated the raising of $214,000,000 from the excise by substantially the same methods which the English system employed; while the American Geographical and Statistical Society memorialized Congress to devise a system adequate to produce $268,000,000 from inland sources, with customs duties sufficient to increase this sum to $318,000,000.[1]

Congress appreciated more clearly than did the secretary the magnitude of the struggle upon which the country was entering, and better understood the temper of the people. But no data existed upon which it might base its action, no reliable statistics of commerce and manufactures were available, and history offered little for guidance save the emergency systems of 1794 and 1814. The House, however, instructed the Committee of Ways and Means to prepare a bill adequate to produce

[1] See *Bankers' Magazine*, vol. xvi., pp. 913, 705–727.

at least one hundred and fifty millions of revenue,[1] and on the 12th of March, 1862, Mr. Morrill of Vermont introduced a measure embodying the views of the committee, which was thought sufficient to yield this amount.

The extra session of the preceding year, which was so prolific of fiscal measures, had authorized loans amounting to $610,000,000; and these, if current expenditure continued unabated, would probably have to be increased to $950,000,000 before the close of 1862. The interest charges alone on this amount would reach from sixty to seventy millions; and the civil establishment would demand sixty millions more, while the military force to be maintained subsequent to the termination of the war would considerably increase this amount. Public interest, as well as a sound financial policy, demanded that all of these charges should be met from the proceeds of current revenue. Further than this, a vigorous application of the taxing power is always essential to a sound credit, especially if deficit financiering be long continued, as it was during this period. It is unfortunate that this most elementary principle of finance was not appreciated before the war had been in progress nearly two years, and the credit of the government had been so seriously impaired. Even at this time the Administration did not contemplate more than the raising of permanent expenditures by taxation; all other expenditures were to be met by the further issuance of loans.

In Congress the discussion upon the report of the committee wore on for three months. Amendments were offered to almost every section of the bill, while several entirely new measures were introduced. As

[1] By Joint Resolution, Jan. 21, 1862.

finally engrossed, it provided in general for the following taxes: upon beer, ale, porter, and other malt liquors, one dollar per barrel; distilled spirits, of first proof, twenty cents per gallon; upon private persons or corporations carrying on trade, a special license tax varying according to the nature and amount of the business done; while upon all manufactures, articles, and products, specific or ad valorem duties were levied, the general level of the latter being three per cent. Upon auction sales one-tenth of one per cent was imposed. Carriages, yachts, billiard tables, and plate were taxed according to description, as in many of the State systems. Corporations were taxed according to various methods, the gross receipts tax being applied to railroads and transportation companies, while banks, trust, savings, and insurance companies paid upon dividends declared. Despite the opposition to the income tax, it was retained and made slightly progressive in principle, while the exemption allowed was reduced to six hundred dollars. Upon receipts from advertising, the same rate as upon railroads (three per cent) was imposed; while stamps varying in amount from two cents to twenty dollars were affixed to every transaction and to every bill of exchange. Legacies and distributive shares of property were also taxed according to degree of consanguinity.[1]

As will be seen, the measure was very diffuse. Few taxable articles or forms of wealth were permitted to escape. The committee had aimed, as Mr. Morrill said,

[1] Act of July 1, 1862. The complete text of the measure, which fills fifty-seven pages of the Statutes at Large, may be found in vol. xii. of those publications, p. 432 *et seq.* The rates of taxes are to be found more fully explained in subsequent chapters.

to "avoid all extremes," and to "propose duties upon a large number of objects rather than confine them to a few, and thereby be forced to make them excessive in amount, and for that reason entirely unreliable."[1]

Concurrently with the debates upon this measure went a discussion of the tariff. Compensatory customs duties were obviously demanded to equalize the internal taxes, as well as to conciliate the manufacturing interests. The celebrated tariff measure of 1862 was therefore passed, in presenting which to the House Mr. Morrill remarked: "It will be indispensable for us to revise the tariff on foreign imports, so far as it may be seriously disturbed by any internal duties, and to make proper reparation. . . . If we bleed the manufacturer, we must see to it that the proper tonic is administered at the same time."[2]

Created as these measures were, with but few precedents for guidance, with conflicting State interests to avoid, and with a people unfamiliar with federal taxation to conciliate, — a people taught to look upon the tax-gatherer, especially if he bore the credentials of the United States, as quite as invidious as the publican of old, — the fiscal legislation of this session was in a large measure successful, and not unworthy of admiration. Many grave errors were soon discovered to have crept into the measure, owing to the haste in engrossing it and the novelty of its provisions; while countless complications confused its administration, owing to the difficulty of properly interpreting its meaning. The more serious of the former were removed by corrective enactments, while the generous discretionary power

[1] *Congressional Globe*, 1861-1862, p. 1194. [2] *Ibid.*, 1196.

granted the Commissioner of Internal Revenue enabled him to supplement and relieve the latter by his own rulings.

Up to the passage of this Act, the policy of the Administration had been in a sense apologetic and conciliatory; and it was feared that such a drastic measure would arouse opposition to the continuance of the war. No such result followed, however; in fact, the government was apparently strengthened by it, while public securities immediately became stronger. Trade was by this time recovering from the early effects of the war, and was rapidly expanding under the stimulus of an inflated circulation and the unusual government demand. Prices were also rising, the market was enlarging, and the demand for labor was constant, so that under these conditions the support of the war became a cheerful duty to the majority of citizens.

Contrary to all expectations, the measure did not immediately affect the Treasury receipts. For the ten months of the fiscal year 1863, the returns from all internal sources were but $37,640,787, instead of over $100,000,000, as had been expected. This discrepancy between estimated and actual receipts the secretary endeavored to explain by the newness of the law and the imperfections of its administration; "but such care," he said, "had been taken to obtain correct premises, that it was hardly thought possible that the conclusions deduced from them could be wide of the truth."[1] Mr. Morrill had estimated the revenue for the first year of the operation of the act at $101,925,000;[2] but Secre-

[1] Report on Finances, 1863, p. 3.

[2] *Congressional Globe*, 1861–1862, p. 1194.

tary Chase, believing this an overestimate, had secured a competent statistician, who devoted himself for some time to "ascertaining, with the aid of practical men, conversant with business, the probable amount of revenue from each object of taxation," and, as a result of these calculations, he thought it safe to anticipate at least $85,456,303 from the excise,[1] a sum, as we have seen, more than twice the amount actually turned into the Treasury. This great divergence between actual and estimated receipts, the secretary thought, was due to the "imperfect execution" of the law, to the changes made in it by Congress, and to the nature of the system itself.

By this time the war had been in progress nearly two years and a half, the public debt had reached the extraordinary amount of $1,098,793,000, and the public viewed with some apprehension any further resort to credit. But from this time on a turning in the tide is noticeable, and the receipts from the excise steadily increase in importance. Thus, while the receipts from this source for the quarter ending Sept. 30, 1863, were but seventeen and one-half millions, in the succeeding quarter they rose to over twenty-seven millions, while, for the closing three months of the fiscal year 1864, over thirty-seven million dollars were returned from this source.

The full magnitude of the struggle had also become apparent, and the loyalty and spontaneity with which the nation had accepted earlier legislation imposing taxation led the Administration to contemplate even greater dependence upon this source in the future.

[1] Report on Finances, 1863, p. 3.

The pure "loan policy" had failed beyond cavil, and must be abandoned. Sound financiering, as well as the public prejudice against an inordinate indebtedness, clearly demanded a more vigorous utilization of the taxing power. This fact is recognized by Mr. Chase in his December report, in which document he boldly advances plans for the increase of the tax levy to one hundred and fifty million dollars from the excise alone.[1] In this report the secretary at lasts deserts his previous timid policy, and advocates plans somewhat commensurate with the serious nature of the occasion.

This portion of the policy of Mr. Chase has been the subject of much discussion. By many it has been contended that, had he manifested the same courage and independence in the earlier stages of the war that characterized his later recommendations, not only would the Treasury have been saved millions of dollars, but the moral effect of an adequate revenue upon the South and foreign nations might have operated to bring the war to a more speedy termination. Doubtless a more vigorous application of the taxing power would have had these effects; doubtless, also, the credit of the country would have been better sustained had taxation been more resolutely applied; but, to be sure that this would not have been a penny wise and pound foolish policy, it is necessary to estimate the effect of such a policy upon the industrial conditions of the country. As a matter of fact, all testimony seems to indicate that trade and industry during the first eighteen months of the war were most unsettled and abnormal. Capital was in a state of flux. Labor was seeking new fields,

[1] Report on Finances, 1863, p. 12.

while new industries were everywhere making their appearance, eventually completely to alter the appearance of the country. Successful financial management in time of stress demands that the first solicitude of a minister be the material well-being of the people. "A poor nation, a poor treasury," should be the guiding axiom of all Treasury management. In the early days industry would hardly have borne the burdens which it later accepted with comparative ease. It would have been embarrassed, possibly seriously crippled, by the sudden changes in the conditions of trade and production which such a weight of taxation entailed.

But aside from the inability of the country to sustain such a drain, was it possible to have rendered the service more efficient and thus more immediately productive? As we have seen, the receipts for 1863 were but slightly in excess of thirty-seven million dollars from sources which the most conservative had believed capable of producing eighty-five millions. In 1864 these same sources yielded one hundred and nine millions; while in the succeeding year two hundred and nine millions were covered into the Treasury, mainly from the same sources and at the same rates as obtained in the years preceding, for the Act of 1864 but slightly affected receipts in this latter year. These facts clearly indicate that the fault lay not so much with the inadequacy of the measure as in the faulty administration of the system. Increasing, as the receipts do, at a nearly geometric ratio for these three years, it is by no means certain that the law of 1862 would not have proved as productive in the long run as the later enactment; for, as the Revenue Commission of 1865 stated, the extravagant rates of the

laws of 1864 and 1865 were in large part neutralized by the losses arising from evasion and fraudulent returns. Experience seems to teach that time, and time alone, is essential to perfect and render productive an intricate system of excise.

In view, therefore, of the unsettled condition of industry, as well as the imperfect development of the fiscal machinery, is it not unjust to lay at the door of the Treasury Department the responsibility for the tardy productivity of the excise? At the outside, receipts could hardly have been advanced more than nine months, even had Congress taken the subject of taxation resolutely in hand during the special session of 1861; and few will maintain that it was at that time in a position adequately to grapple with the problem. It would seem that the most that could have been done by the earlier sessions of Congress lay in the line of preparation, and possibly in the affixing of certain taxes to the schedule which would have fallen on realized wealth and been more immediately productive. And this the secretary should have provided for.

By 1863, however, things had changed greatly. Commerce and industry had become accommodated to the changed conditions of production, and Congress was equipped with data which enabled it to proceed less tentatively and with more assurance of success. Early in 1864 the rates upon certain classes of luxuries, such as distilled liquors, had been increased, as were also the stamp and license taxes;[1] but still the receipts from internal sources were comparatively light, and the general acquiescence of the public in the earlier measures led the

[1] Act of March 7, 1864.

secretary to recommend still further resort to taxation. In compliance with this recommendation, a bill was introduced into Congress which was most sweeping in its provisions. The discussion which ensued brought up the entire fiscal policy of the Administration, although the opposition mainly centred itself upon the general excise upon manufactured products. In general the bill followed the lines outlined by earlier legislation, although a general increase in rates was made. Thus the duty upon spirits, which had been 20 and 60 cents under the earlier laws, was increased to $1.50 and $2.00 per gallon under the new; upon smoking tobacco the tax was more than doubled, while the tax upon cigars was advanced from a maximum rate of $3.50 per 1,000 to a maximum rate of $40.00 per 1,000. In a like manner, although not to such an extravagant extent, license taxes were increased, while specific duties upon many manufactured products were doubled. The general ad valorem rate was increased from three to five per cent upon most articles included in the former schedule, while numerous new sources of revenue were ferreted out and taxed.[1]

Nothing was omitted, from the raw product to the finished commodity. Often an article received a half-dozen additions ere it reached the consumer. And not only were all the constituent elements which entered into an article taxed, as the bolts, rivets, castings, trimmings, and the like, of an engine, but the engine, when completed, was subject to an additional ad valorem duty upon its value; while all repairs which increased the value of an article ten per cent were rendered dutiable

[1] The date of the passage of the measure is June 30, 1864.

at a like rate. It was the most comprehensive measure in our history. The tariff duties were also revised to equalize the burdens upon the domestic producer.

Speaking of the fiscal measures of this period, an observant Austrian writer has said: "The citizen of the Union paid a tax every hour of the day, either directly or indirectly, for each act of his life; for his movable and immovable property; for his income as well as his expenditure; for his business as well as his pleasure. Stamps were affixed to the smallest agreement, and the most insignificant bill of exchange bore a tax ranging in amount from that on a small receipt to one of twenty dollars. Incomes were not only burdened by a regular tax, but also by an extraordinary payment, while to these must be added State, county, and municipal taxes of almost an equal amount." [1]

The additional taxes imposed upon manufactured articles by this act were received with unconcealed opposition by the producing interests, who insisted that the tax was not diffused among consumers by being added to price, but was taken almost wholly from their profits. Whatever view we may take of the ultimate diffusion of taxes, it must be admitted that, in its early operations, an excise is difficult to shift, and may work decided discouragement and injury to industry. Certainly such was the case during the period now under discussion; for, during the early stages of the war, industry suffered severely in accommodating itself to the changed conditions of trade and production. By 1864, however, prices had already begun their upward flight, and had become

[1] "Finanzen und die Finanz-Geschichte der Vereinigten Staaten von Amerika," Hock, p. 191.

so elastic as to respond readily to every change in the rate of taxation, or in the amount of the circulating medium. The manufacturers maintained an active opposition, and memorialized Congress to abolish the general excise altogether, and to substitute therefor a uniform tax upon sales. Such a tax, they maintained, imposed at the time of purchase, would be borne with greater ease by the people, and would not offer the same opportunities for evasion as a duty imposed at the place of manufacture. The Commissioner of Internal Revenue himself guardedly approved of the change,[1] the simplicity and apparent ease of assessment commending it to him. Oddly enough, Adam Smith is quoted in defence of the tax; while, as a matter of fact, if there is one tax which the author of the "Wealth of Nations" unequivocally condemns, it is the tax upon inland commerce, to the freedom from which in England he attributes in large measure the prosperity of that country. Mr. Morrill was most strenuous in his opposition to the proposed change, which he said was contrary, not only to all the laws of trade, but to every sound principle of finance as well. Its administration would require the maintenance of an army of officials to guard the transportation and sale of goods, and would subject every manufacturer merchant, or shopkeeper to the continued presence of the tax-gatherer. It would obstruct trade, and be most difficult of collection, and would be in effect equivalent to the erection of tariff barriers about every transaction in the country. History has sanctioned these objections of Mr. Morrill, as well as the adverse vote of Congress upon the bill; for, as Adam Smith has shown, it was

[1] Report on Finances, 1864, p. 60.

the Alcavala, or duty upon domestic commerce, which aggravated the revolt of the Netherlands against the tyranny of Spanish oppression, and in Spain herself caused the ruin of her industries.[1]

One of the most anomalous and indefensible provisions of the bill was the tax upon repairs, which, like all taxes upon improvements, tends to discourage providence and economy. Further than this, it was well-nigh impossible to collect it, inasmuch as it is in so large measure self-assessed. It presumes that any increment of value is equivalent to new production, and should be taxed accordingly. The tax on repairs never proved productive, the receipts for the fiscal year 1866, the last of its operation, being but $848,391. The income tax was also assessed by irritating methods, which rendered it needlessly unpopular; while the general excise upon manufactures and products insisted upon many needless details, which aroused the opposition of the producing interests. At the same time the penalties for fraud and attempted evasion were inadequate, and did not prove effective in preventing great loss to the revenue.

At the close of the fiscal year 1864, Mr. Chase resigned the portfolio of office, and his mantle fell upon the shoulders of Mr. Fessenden of Maine. As the new secretary confesses in his December report, the finances of the country were in a most discouraging condition. The balance remaining in the Treasury was less than nineteen millions of dollars; requisitions remained unpaid amounting to seventy-two millions, while certificates of indebtedness outstanding aggregated one

[1] "Wealth of Nations," Book V., chap. ii.

hundred and sixty-nine millions.[1] Moreover, the prospect for the continued sale of bonds was far from flattering; gold had reached the pinnacle of its upward flight, while the pending election greatly depressed the money market. The condition of the revenues was, however, most reassuring, and during the coming months began to justify the hopes which had been earlier reposed in them, the excise alone not infrequently bringing in as much as a million dollars a day. From this time on to the close of the war the condition of the Treasury was much improved, the public securities regained credit, while the actual receipts from the various sources greatly exceeded the estimates.

But, despite this gratifying showing, Congress, as a closing enactment to the long series of fiscal measures, saw fit to increase the rates of internal taxation, already oppressively high in many instances, by the law of March 3, 1865. By this measure every possible article which had escaped the scrutiny of the earlier Acts was sought out and taxed. The general ad valorem rates were increased twenty per cent, or to six per cent upon most manufactured articles; and provision was made for the appointment by the secretary of a special Revenue Commission to inquire into and report upon "the best and most efficient mode" of raising the necessary revenue for the support of the government. This was the closing act of the war, but it did not become operative in time to afford any relief to the revenues. As a matter of fact, aside from the invigorating effect of the resolute resort to taxation upon the credit of the country, neither the excise nor the customs afforded the

[1] Report on Finances, 1864, p. 19.

Treasury any great measure of support until the most urgent necessity for the same had passed. During the fiscal years 1861 and 1862, the receipts from the former source were practically nothing; while in 1863 they rose to about $39,000,000, but little more than sufficient to meet the interest charges upon the public debt. Even as late as 1865, the receipts from this source, added to those of the customs, only exceeded the ordinary civil expenditure and the interest on the public debt by $160,000,000, while the total expenditures of the Treasury were $1,906,430,000. This relation between the revenues and expenditure may be more graphically exhibited by the following table, expressed in denominations of millions: —

Collections and Expenditure for the Fiscal Years: —

	1862.	1863.	1864.	1865.	1866.
Customs Revenue	49.05	69.06	102.31	84.93	179.05
Internal Revenue	1.79	39.12	110.21	210.66	311.20
Miscellaneous Sources	1.08	4.50	52.08	38.11	67.77
Total Revenue from Taxes, etc.,	51.92	112.68	264.60	333.70	558.02
Net Ordinary Expenditure, not including Interest Charges[1] .	456.38	694.00	811.28	1217.70	385.95
Total Gross Expenditure . . .	565.66	899.81	1295.54	1906.43	1139.34

The system was slow in attaining any degree of efficiency, owing to the newness of the provisions, the untrained officials to whom its administration was intrusted, the constant tinkering and changes made in it by Congress, and the extravagance of many of the

[1] By net ordinary expenditure is meant expenditure on behalf of war, the navy, Indians, pensions, and miscellaneous purposes. Gross expenditures includes the above as well as interest, premiums, and other payments on behalf of the public debt.

taxes, which were so high as to induce wide-spread evasion and fraud, often with the connivance and assistance of the officials. It may, in fact, be stated as a principle, that *the experience of this period goes to prove that in time of peace the machinery for immediately realizing upon the currently created wealth of the country should never be permitted to get out of running order; for had there existed in 1861 some form of internal taxes with which the people were familiar, and which was sufficiently elastic to permit immediate extension, the Treasury would not have suffered from the straits to which it was reduced, the necessity of resort to treasury notes might have been averted, and the war been more vigorously prosecuted.*

As it was, the internal system was of substantial service less from any real contribution afforded to the Treasury, than from the support which it gave to the credit of the country and thus to the conduct of the war. And as such the excise was well-nigh indispensable, as it was to the plans of reconstruction set on foot at the close of the war.

And Congress, aided by the counsels of the Secretary of the Treasury, and the later appointed Special Commissioner of Revenue,[1] now found itself confronted with the problem of how to raise the revenue demanded by the contemplated reduction of the public debt, the pay-

[1] Mr. David A. Wells, the chairman of the Revenue Commission appointed under authority of the Act of March 3, 1865, was subsequently selected as Special Commissioner of Revenue under an Act of July 13, 1866, whose duties it was to investigate and from time to time "report, through the Secretary of the Treasury, to Congress, either in the form of a bill or otherwise, such modifications of the rate of taxation, or of the methods of collecting the revenues, and

ment of the interest charges thereon, and the maintenance of the civil establishment, including the war and navy departments, by means which should neither repress industry nor check enterprise, and which, at the same time, should be so devised as to bear most heavily upon those most benefited by, and most capable of bearing, the taxes. The circulating medium was redundant, and consisted largely of inconvertible paper; a large floating indebtedness had to be funded, while early loans now falling due were to be reissued, and the debt simplified and rendered manageable; the Southern States were to be rehabilitated with Union vestments, and the wheels of commerce readjusted to changed economic conditions. A reduction of the currency to reasonable proportions was demanded by every consideration of public welfare, while the monetary vacuum in the South was to be supplied. A war tariff called for revision in harmony with the demands of expanding trade and enlarged commercial relations, while the obstructive taxes on raw materials, and the burdens of the inland duties, so prejudicial to that wide commercial activity so soon to follow, required immediate attention.

At this time the total indebtedness of the country, floating and funded, approximated three thousand millions, upon which the interest charges, funded at five and one-half per cent, amounted to one hundred and

such other facts pertaining to the trade, industry, commerce, or taxation of the country, as he may find, by actual observation of the law, to be conducive to the public interest." The Special Commissioner made four annual reports, and his statistical investigations cover almost every aspect of the financial, industrial, and monetary disorders induced by the war, and form a mine of information to the student of the period.

sixty-five million dollars, while the civil establishment, with the war and navy departments added, demanded a hundred millions more. The customs revenue and miscellaneous sources were producing one-half that amount, so that a simplification of the inland taxes so as to render them productive of two hundred millions, would, it was thought, suffice for current expenditure and permit an annual sinking fund appropriation of fifty millions of dollars. This, in effect, the secretary advised.[1]

The special Revenue Commission,[2] provided for in the Act of March 3, 1865, began its investigations at once, and eventually did much to bring order out of the existing confusion. It travelled from city to city, heard representatives of the various industrial interests, and in January following presented the results of its investigations to Congress in a most voluminous and valuable report, which was made the basis of later modifications in the customs and the excise. The creation of such a commission was a novelty in congressional procedure, although it finds frequent precedents abroad, and since that time has been employed in this country in the tariff investigation. When composed, as this Commission was, of men apart from active participation in the affairs of government, and untrammelled by personal interests or a constituency to be gratified, and possessed of a practical and scientific knowledge of the laws of trade and finance, such a method of dealing with questions demanding special scientific knowledge possesses decided

[1] Report on Finances, 1865, p. 20.

[2] The Commission as appointed consisted of David A. Wells of New York, Stephen Colwell of Pennsylvania, and S. S. Hayes of Illinois.

advantages over the congressional committee system, frequently partisan and seldom wholly unbiassed.

After reviewing the legislation of the period, as well as the various taxes imposed, the Commission recommended "the abolition or speedy reduction of all taxes which tend to check development, and the retention of all those which, like the income tax, fall chiefly upon realized wealth." "Diffuseness" was the all-pervading evil of the system, to which many of the industrial ills of the time were more or less directly traceable; for by its operations it violated nearly every sound principle of finance, was most oppressive to the consumer, and injurious in its effects upon industry. A more "concrete" system was demanded by the conditions of the country, to obtain which desideratum the Commission made the following specific recommendations: First, that the rate upon distilled spirits be reduced to one dollar per gallon (not adopted); second, that the excise tax upon raw cotton be increased to five cents per pound (Congress raised the tax to three cents, and later abolished it altogether); third, that the principle of progression or discrimination in the income tax be repealed, that a uniform rate of five per cent be imposed on all incomes in excess of $1,000, and that no further exemptions for house-rent be allowed, or, if such exemption be allowed, that it be limited in amount to $300 (adopted in 1867); fourth, that all assessed taxes, save those on billiard tables, be repealed (not adopted); fifth, that the excise upon wearing apparel, repairs, pig iron, books, magazines, etc., coal, and crude petroleum, be abolished, while the general ad valorem and specific taxes upon goods, wares, and merchandise be horizontally reduced fifty per cent.

(Partially adopted by Acts of July 13, 1876, and March 2, 1867.) Only with some such alterations as these would the system of raising revenues from inland sources be "adapted to the age and our conditions; the only one compatible with great fiscal results and with that large freedom of industry which alone can ever adequately supply the coffers of an enterprising, competitive, and free people."[1] The report further arraigned the appointment, retention, and promotion of officials for other reasons than qualifications of merit and good behavior. With this method continued, the Commission felt that it would be idle to hope for an efficient and economical administration of the system. To this cause was assigned much of the inefficiency of the officials, as well as the wide-spread fraud and evasion of taxes. Men were not infrequently appointed wholly incapable of appreciating the duties of their office, while others were removed because, in the faithful discharge thereof, they had interfered with the private interest of wealthy and influential individuals.

But Congress paid slight heed to these recommendations; for the adjustment and speedy reduction of the public debt was the chief object of solicitude, not only on the part of the government, but of the people as well, who manifested an incomprehensible impatience at the thought of indebtedness; and many wild schemes were afloat for its immediate payment, it being even proposed, under the elation of temporary prosperity, to extinguish it by voluntary contributions and have done with it forever. For this reason the recommendations

[1] See Report of Revenue Commission, House Ex. Doc. No. 34, Thirty-ninth Congress, First Session, pp. 23-41.

looking to an abatement of the taxes found but little immediate favor, either within or outside of the halls of Congress. For some months the country enjoyed a reaction of enthusiasm and joy after the protracted years of despondency; and just as France, a few years later, shaken by discord and faction, after the disasters of Sedan and the excesses of the Commune, collected her shattered energies, so the Union, reunited, vacillated for the moment, weak at heart, and then, with a mighty effort, indifferent alike to the false steps of the past or forebodings for the future, set herself resolutely at work to repair the breaches in her armor, and to develop the resources of her hidden power. No fact of our history demonstrates the wonderful recuperative power of the United States as does this; for no people in modern times took from their pockets two hundred millions of dollars with which to reduce the public debt within twelve months after the close of a domestic struggle of four years' duration, no nation ever assimilated to itself nearly a million of men with so little friction or disturbance, and none has borne so uncomplainingly a system of taxation most oppressive in its incidence for the defence of a principle. The country was but wounded, and the sympathetic energies rushed to her recuperation in the vast industrial development which followed in the first few years subsequent to the termination of the war. Immigration poured into the country, following the great railroads westward, crops were bountiful, and the prices of farm products ranged high. An era of unparalleled railroad construction set in, and iron bands soon united the Atlantic with the Pacific. Labor was constantly employed at high wages, and the

South began to reassume the prosperity it had known before the war, while the prairies of the new West began to blossom as the rose.

But this prosperity and overweening confidence were short-lived. During the war the withdrawal of labor and the consumption of the army in part compensated for the inroads of the State; but with the return of peace conditions were reversed. Production was stimulated in excess of demand, an unhealthy spirit pervaded all enterprise, prices were speculative and uncertain, and while in general the country bore every appearance of prosperity, industry was in a state of flux, and was undergoing a process of readjustment in harmony with peace conditions. Hard times followed for many on the heels of diminished government demand, and the burdens of taxation soon became unendurable, while the inquisition and official penetration into business affairs induced widespread complaint at its continuance. So long as the war lasted taxes were borne willingly, and paid with patriotic pride; but, with peace re-established, selfish interests reasserted themselves, and the critical eye of public opinion, diverted from graver affairs, soon perceived the evils innumerable which pervaded the fiscal administration.

At the same time the revenues continued in excess of expenditures, while receipts from specific sources of taxation frequently exceeded expectations. The financial outlook being so reassuring, Congress, in the summer of 1866, took the recommendations of the Commission seriously in hand, and in a rough way made them the basis of subsequent legislation.

The Act of July 13, 1866, which rendered unmanufactured cotton dutiable at the rate of three cents per

pound, provided also for a horizontal reduction of twenty per cent of nearly all ad valorem duties, or to five per cent of the valuation of the article; while on many others, notably boots and shoes, clothing, and other articles of wearing apparel, the rate was reduced to two per cent. The taxes on coal, pig iron, books, and magazines were wholly repealed, as was the duty on crude petroleum a few months later; while sensible relief was given the manufacture of sugar, cordage, steel, iron chains and cables, as well as railroad freights. From these abatements a reduction in the revenues of from fifty to sixty-five millions was expected.

For the fiscal year 1866, the receipts from the internal duties were $310,906,984. In 1867 they fell to $265,920,474. A comparison of these receipts indicates a loss of thirty-two millions from the abatement of the taxes on manufactures and products, of four millions on gross receipts of corporations, advertisements, etc., and of ten millions from banks, railroad companies, and other corporations; or a total loss of forty-five millions. This exhibit is somewhat remarkable in view of the fact that the taxes abated or repealed by the Thirty-ninth Congress were estimated, on the basis of their productivity for the preceding year, as sufficient to occasion a loss to the revenue of one hundred millions. As a matter of fact, the real diminution to the revenues from these sources was not in excess of from sixty to seventy million, the losses being in large part compensated for by the greater productivity of a low rate, and the increase in the consumption of certain kinds of commodities; so that the Treasury showed a net gain of from fifteen to twenty-five million dollars for the year.

In the following session[1] the rate on cotton was reduced to two and one-half cents per pound, while still further concessions were made to the producing interests in the exemption of ropes and twines, bar, sheet, and plate iron, castings of iron and copper, clothing, certain manufactures of wood, agricultural implements, oil of various kinds, pottery, salt, steel, and large numbers of articles of general and domestic consumption. The income tax was also amended in conformity with the recommendation of the Commission by the increase of the exemption allowed to one thousand dollars, with a uniform rate of five per cent upon all incomes in excess of that sum, while the gross receipts tax as applied to advertisements and toll roads was repealed. Cotton was relieved from taxation a year later;[2] while the excessive rate upon distilled spirits, i.e., two dollars per gallon, was retained until July of the same year,[3] when the rate was reduced to fifty cents. During the same session of the Fortieth Congress all taxes upon goods, wares, and manufactures, save those imposed on gas, illuminating oils, tobacco in its various forms, distilled and malt liquors, banks, and those articles upon which the tax was collected by means of stamps, were repealed.[4]

This action on the part of Congress was sudden and unexpected. Moreover, it was viewed as but experimental and possibly temporary in its duration.[5] As a consequence of this and other contributory agencies,

[1] By Act of March 2, 1867.
[2] Act of Feb. 3, 1868.
[3] Act of July 20, 1868.
[4] Act of March 31, 1868.
[5] This feeling was induced in part by the recommendation of the secretary advocating a reimposition of the general excise on manufactures, as well as an increase in the duty on sales. Report on Finance, 1868, p. 14.

prices failed to respond in anything like the degree anticipated by the reduction in rates. In the case of a number of articles, notably pig iron, manufactured lumber, and salt, the prices continued to advance; "while in other instances, as in the case of agricultural implements, sewing-machines, hoop-skirts, manufactures of silk, newspapers, and in fact most articles which are the products of monopolies created by patents, established custom, or other causes, the repeal of the internal tax, through the maintenance of former prices, has been only equivalent to legislating a bounty into the pockets of the producer."[1]

The course of trade during these years of reorganization was more or less arbitrary, and characterized by the same phenomena which marked the early days of the war. Industry was slow in accommodating itself to the changing conditions of production, and commercial failures were frequent. In those cases in which prices responded to the reduction of the taxes, individuals were often ruined by being forced to unload upon a declining market goods produced or purchased at artificially enhanced prices; while in others the reduction or abolition of the tax was but a bonus granted to the manufacturer in the form of enhanced profits. Speculation was rife, and values wholly unsettled. To what extent this abnormal condition of trade and industry was attributable to the reduction of the excise it is difficult accurately to determine, but so able an authority as Hon. A. S. Hewitt has considered it so potent as to ascribe to it the financial revulsion of 1873.

Within three years after the close of the war, the

[1] Report Special Commissioner of Revenue, 1868, p. 23.

more important recommendations of the Revenue Commission had been substantially adopted, and all of the more discriminating and oppressive taxes had been repealed. No direct taxes were now imposed on any manufactured product, with the exception of distilled spirits, fermented liquors, cigars, tobacco, gas, patent medicines, perfumes, cosmetics, and playing-cards, all of which articles are in the nature of luxuries.

For some years longer the special license, stamp, corporation, and income taxes were retained; although the gratifying condition of the finances, and the continued excess of receipts over expenditures, had rendered a more speedy reduction possible. By 1870, however, the debt having been in large part refunded, and the receipts from the customs, distilled and malt liquors, and tobacco manifesting a gratifying increase, all the taxes save those now on the schedule, as well as the income duty, certain stamp taxes on transfers, proprietary articles, and some others, were repealed, including all ordinary taxes on occupations, saving those on brewers, distillers, and dealers in tobacco. The income tax was to continue two years longer, with the rate reduced to two and one-half per cent upon incomes in excess of $2,000, while liberal deductions were permitted for taxes, losses, interest and rent paid, and debts ascertained to be worthless.[1]

Few decades in our history are more replete with interest for the financier than the one under discussion. Some of these phases have been examined in the preceding pages, and it but remains to indicate briefly two deductions, one might say axioms, which may be drawn

[1] Act of July 14, 1870.

from the experiences of the same. *The first of these is, that time is a most essential requisite to efficiency in an excise system.* A new bureau of administration, with its army of officials and a vast continent from which to garner its resources, is a ponderously moving machine, and cannot achieve efficiency in a day or even in a year. For this reason the taxing machinery of a nation should never be permitted to get out of running order; for, as has been said, the customs revenue is a most unstable basis upon which to depend for the revenues in times of emergency.

As a second principle, it may be added that a moderate rate of taxation, assessed with due regard to existing conditions, will in the long run prove more productive and less prejudicial to the moral, social, and industrial interests of a nation, than one so excessive in amount as to encourage evasion, speculation, and fraud. The truth of these principles is in part verified by an examination of the excise receipts during the five years extending from the close of the war down to 1870, which coincide with the reduction of the system. During this period taxes were removed from subjects from which the aggregate receipts in 1866 had been approximately two hundred millions, yet the total loss to the revenue thereby was less than one hundred and twenty-five millions,[1] and this in a period of partial failure of crops and general disturbance of business relations.

[1] According to the estimates of Congress, the sources abandoned might have been expected to reduce the revenue by the following amounts: —

Act of July 13, 1866	by	65 millions.
Act of March 2, 1867	by	40 millions.
Act of Feb. 3, 1868	by	23 millions.
Act of March 31, and July 20, 1868	by	68 millions.
Total estimated reduction		196 millions.

CHAPTER IV.

DIRECT TAXES ON PERSONS AND PROPERTY.

I. THE DIRECT OR APPORTIONED STATE TAX.

In the preceding pages, there has been traced the process by which the mass of revenue legislation induced by the war became incorporated into our fiscal order. In the following chapters it will be our aim to examine the several more important taxes in some detail, as well as the social and economic forces set in motion by them; their influence upon industry, prices, and wages; and finally to determine from the teachings of the same the relative efficiency and availability of each in case of emergency. And first as to the direct or apportioned State tax, which, with the income tax, was the first of the many taxes imposed.

In general, the method employed in the assessment and collection of the direct tax of 1798 served as a model for all subsequent experiments in deriving revenues from a tax apportioned among the States, of which, as we have seen, there were four, viz., in 1813, 1814, 1815, and 1861.

The measure of 1798, which apportioned $2,000,000 among the States, offended local prejudices needlessly, and was for this reason extremely unpopular. Viewed, however, as a political measure, it had more to commend it. The tax was levied but once, being marked for the

axe of the new administration, which came into power pledged to its repeal. State lines were wholly ignored by it, save in so far as they served as administrative divisions. Houses, lands, and slaves formed the basis of the levy, and an exemption of $500 was allowed.

The later Acts evoked by the stress of the War of 1812 differ in some details from the earlier tentative efforts of the Federalists. Greater latitude was allowed the States in their collection, the States being granted permission to assume their quotas, which was an important modification, while the stipulation of Congress that they should be but temporary and confined to war necessities rendered them more tolerable to the people.

These earlier precedents formed the groundwork of the Act of Aug. 5, 1861; although, as we have seen, the recommendations of Secretary Chase did not fully comply with the constitutional provision, inasmuch as he suggested the exemption of the slave States from its imposition, thereby tacitly acknowledging their severance from the Union.

By the measure of 1861 the same privilege of assumption was granted the States as permitted in the earlier Acts of 1813 and 1815; in fact, earlier precedents were so closely followed that it was asserted in the House that the measure was an exact copy of a bill drawn up at an earlier date by Gallatin.[1] What commended the tax to the Committee of Ways and Means was the pressing demand for revenue, and the belief that the States would at once assume their quotas, and place at the immediate disposition of the government considerable revenue. It

[1] *Congressional Globe*, 1861, p. 307.

is this fact which renders the direct tax so fit an emergency tax. Moreover, it was familiar to the people through their State systems.

But while such considerations as these may possibly justify such a tax as a temporary war measure, as a sort of bridge upon which a fiscal policy may be inaugurated and the capital and trade of the country accustomed to changed conditions, any attempt to meet heavy or long continued demands from this source would be inadvisable. Even admitting that the tax conformed roughly to justice a hundred years ago, when population was a rough criterion of the ability of the States to pay, it must be apparent that the unequal territorial distribution of wealth at the present time renders even an approximation to justice impossible. Even in 1861 it was very unequal in its operations, and the imperative necessities of the occasion form the only justification of its passage; but in view of the small returns therefrom, as well as the endless complications which its administration aroused, it is difficult to believe that occasions will again arise sufficiently urgent to warrant its repetition.

The measure provided for a levy of twenty million dollars, to be apportioned among free and slave States alike, according to population. Only land and improvements were to be taxed, the enumeration to be taken on the first day of April, 1862. A minimum exemption of $500 was allowed each taxable, as in the earlier measures. The Act further provided that expenditures made by the States in military preparations might be deducted in the adjustment of quotas, a provision which greatly reduced the assistance derived from the tax, the only

service which it rendered being the support which it gave to the public securities.[1]

All of the States, save Delaware, the Territory of Colorado, and the States in insurrection, assumed their apportionments, thus verifying the hopes of Congress and greatly simplifying the collection. In the two Northern Commonwealths which declined to assume the levy, tax commissioners were appointed, who at once proceeded with the assessment of the quotas as prescribed by Congress; while special provisions were made for its administration in the Southern States, where, in case the tax was repudiated, it became a first lien on all the lands in the State. As rapidly as Federal authority was extended to these sections, commissioners were appointed with plenary powers to distrain and sell real estate covered by the levy, the amount assessed to each individual being determined by the proportion his estate bore to the taxable property of the Commonwealth.

In order to alleviate the hardness of the law, liberal terms were granted on which land might be redeemed by the dispossessed owner; but, despite this privilege, large tracts in the South remained in the hands of the government, and many persons were ousted from ancestral holdings through no real fault of their own or disinclination to pay the taxes.

Congress further provided that, of the proceeds de-

[1] The receipts covered into the Treasury from the assessment of 1862 down to the year 1870 were as follows: —

1862	$1,795,332	**1866**	$1,974,754
1863	1,485,104	**1867**	4,200,234
1864	475,104	**1868**	1,788,146
1865	1,200,573	**1869**	765,686

rived from the sale of these lands, one-fourth was to be returned to the State on the suppression of the Rebellion, to be used in such a way as the State might direct; one-fourth was to be placed in a fund to be used for the promotion of colonization from the State to some tropical clime; while the balance was to be turned into the Federal Treasury.[1]

By the close of the war the tax had been partially collected in Florida, South Carolina, Virginia, Tennessee, Louisiana, North Carolina, and Arkansas, from which States $632,994 had been obtained through the process of sales, while $420,661 had been collected by regular assessment at an approximate cost of thirteen per cent.[2] Moderate though the taxes were, it was well-nigh impossible to collect them. Currency was scarce, the markets insecure, and production precarious and almost at a standstill, owing to the scarcity of labor and machinery. At the close of the war the distress in the South was well-nigh universal; and the committee on reconstruction, in reporting the Fourteenth Amendment of the Constitution to Congress, recommended that any State, upon ratification of the same, should be allowed to assume its apportionment of the direct tax, and be granted ten years in which to make payment of the same.[3] Collection by distress had proceeded in many districts down to as late as 1866, when further proceedings were suspended by order of the President, in conformity with an Act of Congress. Pacific measures were desired by all, and the inclination manifested

[1] Act of June 7, 1862.

[2] Report of Commissioner of Internal Revenue, 1865, p. 90.

[3] House Reports, 1865–1866, Nov. 30.

by several of the States to accept the apportionment supported the recommendation of the committee. In conformity with this sentiment, a temporary extension of time was accorded the States until Jan. 1, 1869,[1] the special boards of tax commissioners were discontinued,[2] and the accounting and administration of the tax turned over to the Commissioner of Internal Revenue. These measures were passed without prejudice to the ultimate right of Congress to proceed with the completion of the levy;[3] but since that time no attempt has been made to enforce payment, and until very recently Congress has studiously avoided considering the question, feeling doubtless that the negative injustice done the many was vastly preferable to equality secured to all by a reopening of the subject and the consequent laceration of old sores.

In 1883 the amounts of the assessment still outstanding were as follows: —

From the Northern States, amount still unpaid .	$ 455,228
From the States formerly in insurrection . . .	2,725,104
Total amount of apportionment unpaid	$3,180,332

As seen in its true light, this neglect worked a gross injustice. It operated as a penalty upon the patriotism of those who had paid the tax, while an irreparable injury had been done those whose lands had been distrained and sold under the levy. An attempt was made to remedy this injustice, in part, by an Act passed in 1883 for refunding the surplus receipts from the sales of

[1] Act of Aug. 3, 1866. [2] Act of March 2, 1867.

[3] The quotas apportioned the Southern States amounted to $5,153,891, of which sum but little over $2,000,000 had been paid.

land, for which purpose $190,000 was appropriated.[1] But so long a time had elapsed, and so unintelligible were the records, that it was well-nigh impossible to identify those dispossessed, and only $64,000 was allowed on the claims presented.[2]

Two avenues of relief from this anomalous position were open to Congress, either one of which was beset with considerable difficulty. Either the sums collected from the States could be refunded to them to be disposed of as they might see fit, or measures might be taken for continuing the collection of the levies in those States where the apportionment had not been paid. Both plans had adherents in Congress. Originally the tax had been construed as a lien on individual property, in which the States were only incidentally concerned as political divisions; but, by the action of Congress suspending the collection, it had been expected that the States would accept their quotas, and, acting upon this hypothesis, sums due the States from the Federal government had been credited to this account. The legality of this position came up for adjudication before the Supreme Court; and the action of the Treasury was held to be unwarranted, the determination of the Court being that the States were in no sense responsible for the apportionment, but that it must be collected from the individual citizens.[3] This decision relieved the States from all responsibility, and threw the Federal govern-

[1] Act of March 3, 1883.

[2] Report of Commissioner of Internal Revenue, 1891, p. 40.

[3] U.S. *vs.* Louisiana, 123 U.S., p. 37. For a full exposition of this complicated matter, see *Quarterly Journal of Economics*, vol. iii., p. 450–461, by C. F. Dunbar.

ment back upon its original position. But the passing of three decades had seen many changes in the ownership of the land originally affected by the lien; and the present owners could not in justice be held responsible for the payment of the tax, while to search out the original debtors was clearly impossible. Another complication arose from the changes which had taken place in values, much of the land having deteriorated to such an extent as to be scarcely worth the amount of the tax.

It was an embarrassing position. To proceed with the collection of the tax according to the determination of the Supreme Court was beset with almost insurmountable difficulties, and would have resulted in monumental injustice; while, on the other hand, the relinquishment of the claims worked an equal injustice to those who, through loyalty or other motives, had paid the tax.

Despite these circumstances, the lower House always opposed any adjustment looking towards a solution of the dilemma. Several distinct measures passed the Senate, but failed to become a law through the apathy of the House; and not until 1891,[1] through the pressure of local interests and the desire to relieve the plethoric condition of the public treasury, was legislation finally enacted which provided for the remission of all unpaid taxes, the return to the States of all sums collected by Federal or State authorities, and for the relief of those persons dispossessed of their lands.

This was probably the most equitable adjustment possible. To have completed the collection at this late day would have induced most crying injustice, while to have

[1] By Act of March 2, 1891.

relinquished the claims entirely, and to have acknowledged the experiment to be a fiscal error already corrected by the lapse of time, would have been but a poor show of justice to the loyal States, as well as to those who in other sections had been forced to comply with the law through threat of distraint.

II. THE INCOME TAX.

It is a matter of some surprise, in view of the prejudice which exists in the American mind against any tax which is at all inquisitorial in character, that Congress should have had recourse to the income tax in 1861,[1] when the apportioned direct tax was imposed, and before any attempt had been made to open up the more available forms of indirect taxation. Possibly this may be explained, in part at least, by the prevailing belief in the early suppression of the war, and by the desire to devise a system which would be but temporary, immediately productive, and capable of extension in case of need. Mr. Morrill probably echoed the popular sentiment when he said in the House that "the income duty was one of the least defensible" of the taxes proposed, but still worthy of retention because of the "considerable class of State officers, and the many thousands who are employed at a fixed salary, most of whom would not contribute a penny unless called upon through this tax."[2]

By the provisions of the measure, a tax of three per cent was imposed on all incomes in excess of $800, from whatever source derived, save that upon any income de-

[1] Act of Aug. 5, 1861. [2] *Congressional Globe*, 1862, p. 1796.

rived from United States securities, one and one-half per cent should be levied. Upon the incomes, dividends, or rents accruing upon any property or securities in the United States, but held by citizens resident abroad, there was to be charged a discriminating tax of five per cent, save upon so much of the income as was derived from Federal securities. The tax was assessable on the first of January; and in computing income, all national, State, and local taxes were to be first deducted. The duty was self-assessed upon schedules prepared for the purpose, and was based upon receipts for the preceding year, irrespective of their source. In case of failure on the part of the taxable to make such return, the assessor was empowered to estimate the income, and to add thereto ten per cent as a penalty for the default.

The tax was assessed but once under this measure, when Congress, reassembling again in regular session, passed modifications which substantially repealed its provisions.[1] By these alterations the exemption was reduced from $800 to $600; the rates were rendered slightly progressive, incomes above $600 and below $10,000 paying three per cent on the excess above the former sum, those above the latter sum paying five per cent. The rates upon incomes from special sources remained unchanged. In order that the tax might be relieved of the objectionable feature by which publicity was given to incomes, collectors were instructed by the commissioner that returns of incomes should not be open to inspection by the public, a ruling which laid the tax open to all sorts of evasions, and subsequently induced its reversal by the commissioner.

[1] Act of July 1, 1862.

These rates remained in force for two years, when, in response to the recommendations of the commissioner,[1] and the absorbing demand for revenues, the comprehensive measure of June 30, 1864, was passed, by which the duties were considerably increased, and the rates rendered more strongly progressive. By this Act incomes between $600 and $5,000 were taxed at the rate of five per cent, those from $5,000 to $10,000 at seven and a half per cent, while all incomes in excess of the latter sum were rendered dutiable at the uniform rate of ten per cent. The Act further provided that any revenues derived from United States securities should be included in estimating incomes under the section, and that any net profits realized from sales of land were to be returned as income, while any losses incurred in the same way were to be deducted. In a like manner the householder was permitted to deduct the annual rental value of his homestead, whether occupied as tenant from another, or held in his own right. The measure specified with great precision the methods for the computation of annual gains, and required the assessor to secure from each taxable an itemized account of his revenue for the preceding year. In the case of the farmer the requirement was extremely burdensome; for it demanded a minute return of all "incomes and gains derived from the increased value of live stock, whether sold or on hand, and the amount of sugar, wool, butter, cheese, pork, beef, mutton, or other meats, hay, grain, or other productions of the estate of such person sold." Such demands were somewhat onerous upon the citizen inclined to make an honest return; while, to those aiming

[1] Report on Finances, 1863, p. 70.

to evade payment, the privilege of deducting house-rent, wages, interest upon incumbrances, and expenditures for repairs, opened an avenue for evasion and fraudulent return; and it occasions no surprise that, as a result, the tax was unpopular, the returns incomplete, and the burdens unequally distributed. This measure had scarcely received the signature of the President, when Congress, by joint resolution,[1] imposed a special income tax of five per cent upon all incomes in excess of $600, which was collected in addition to the regular income duty of that year. It was assessed but once, in October, 1864, the war closing early in the year following, and produced $29,381,862, a striking commentary on the improvement in the method of assessment, as well as an indication of the loyalty and patriotism of the people.

The classifications of the law of 1864 remained in force for but one assessment, when they were again reduced to two,[2] and all incomes in excess of $5,000 were rendered dutiable at ten per cent, all below that sum and in excess of $600 being taxable at the old rate of five per cent.

The war closed almost immediately after this latter modification had been made, and the imperative necessities of the Treasury were in part relieved. Naturally, agitation for the immediate repeal of the tax at once commenced; but Congress wisely preferred first to relieve those subjects most oppressed by the excise. Industry was shackled, and the laws of trade unsettled, by the duplication of taxes induced by the general excise. The income tax, on the other hand, fell mainly upon

[1] July 4, 1864. [2] Act of March 3, 1865.

accumulated wealth, and, in the mind of the Revenue Commission, would "probably be sustained with less detriment to the country than any other form of taxation, the excise upon spirituous and fermented liquors, and tobacco, possibly excepted." [1] It is this impotency of the income tax to affect prices and industry, as well as its non-interference with the free employment of capital, which renders it such a fit emergency tax. It is, in addition, elastic, and capable of immediate and indefinite expansion in time of temporary necessity.

Unfortunately, the report of the Revenue Commission, so replete and satisfactory in other respects, offers but little information in regard to the operations of this tax. Its temporary retention was, however, advocated; but the element of progressivity was deemed to be an unjust discrimination, and a "tax on the results of successful industry and business enterprise." The Commission therefore recommended the repeal of this discrimination, and the imposition of a uniform rate of five per cent on all incomes in excess of $1,000, which sum was held to be no more than the equivalent of $600 at the time when the tax was first imposed, inasmuch as the advance in the prices of all commodities had greatly enhanced the cost of living. The report further advised that deductions for house-rent be no longer allowed, or, if permitted, that they be limited to $300; for such excessive rentals had been permitted by the assessors in the past, that in New York alone the estimated losses to the revenue by reason of this permission exceeded $2,000,000 a year.[2]

[1] House Executive Documents No. 34, Thirty-ninth Congress, p. 27.

[2] *Ibid.*, p. 28.

Congress acceded to the report in so far as it related to the raising of the exemption to $1,000, with a uniform rate of five per cent upon all incomes in excess of that sum, while the proviso was added thereto that the tax should expire in 1870.[1] This latter provision was not observed, however; for Congress, fearing a deficiency, later extended its operations for two years more, but with the exemption increased to $2,000.[2] It is of interest to note that under these later provisions the tax became even more unpopular than it had been before, as it assumed in the eyes of the payer the form of a compulsory tribute imposed upon large wealth. In addition to the exemption of $2,000, as well as all taxes paid, deductions were also permitted, as in earlier measures, for all losses "actually sustained from fires, floods, shipwrecks, or that occurred in trade; the amount of interest paid during the year, the amount paid for rent or labor to cultivate land," as well as any expenditure incurred in repairs other than those for improvement.

The effect of these provisions was greatly to impair the productivity of the tax. Thus, in 1871, the number of taxables returned was but 74,775, while in the following year (the last of its operation) they fell off still further to 72,949; while the receipts for the same years were $14,434,949 and $8,146,686 respectively.

The income tax has always been unpopular with certain classes. It is indicted as invading the sanctity of the most private affairs, as being inseparable from inquisitorial scrutiny into business relations, and an insuf-

[1] Act of March 2, 1867. [2] Act of July 14, 1870.

ferable intrusion into those affairs of the individual which are in a sense sacred, and which in the past had been exempted from the visits of the tax-gatherer. It is further alleged that a tax which offers such opportunities for evasion is a charge upon honesty and patriotism, and a premium upon perjury.

Unquestionably, the tax was exposed to widespread evasion, especially in the large cities. Such complete confidence was reposed in the individual that evasion was an easy matter; and the instructions of the commissioner, early in 1863, that the returns should be open for inspection only to officers of the revenues, simply facilitated it. By a later ruling, however, all returns were thrown open to the public, "in order," as the commissioner said, "that the amplest opportunity may be given for the detection of any fraudulent returns that may have been made."[1] That this ruling had its expected result may be questioned; for it induced other evils, which probably offset any stimulus to honest returns.

In order to facilitate the collection of the tax, extensive use was made of the principle of stoppage at the source. Corporations of a certain kind announcing dividends were directed to deduct the tax, and pay the same to the collector before the distribution of earnings to the stockholders. By this means a large portion of the tax was collected before the income reached the hands of the individual, while fraudulent returns were checked, and the necessity of supervision reduced to a minimum. It was estimated that the cost of returning this portion of the tax did not exceed one-fifth of one

[1] Boutwell's "Direct and Excise Taxation in the United States," p. 259.

per cent, a fact which led the commissioner to recommend that the system of stoppage be extended to all corporations for profit declaring dividends,[1] as later provided in the measure of 1894. How efficient this method was will appear from the fact that in 1865, when the total receipts from incomes was $32,050,017, nearly forty per cent, or $11,346,018, was turned into the Treasury from the earnings of banks, canal, railroad, insurance, and turnpike companies, and Federal employees.[2]

But despite the fact that the income tax was unpopular, and the returns depleted by fraud and evasion, it proved one of the most satisfactory, from a purely fiscal point of view, of the many expedients hit upon by Congress.

In 1865 it produced as much as spirits, both malt and distilled, and tobacco; while in the year following it returned nearly forty per cent more than these combined sources. In the former year over fifteen per cent of the entire internal revenue receipts was derived from this source, in 1866 over twenty-three per cent, and in 1867 over twenty-four and a half per cent.

As indicative of the distribution of wealth, as well as the variations of income, it is interesting to note the receipts from the various classes of payers during the years from 1863 to 1872. With the collections from corporations and Federal employees, they are as follows: —

[1] Report on Finances, 1863, p. 73.

[2] The tax upon the incomes of Federal officials was collected by the disbursing officers, who withheld the duty in paying the salaries of employees.

Receipts from the Income Tax for the Fiscal Years:

INCOMES AND CLASSES.	1863.	1864.	1865.	1866.	1867.	1868.
INCOME—	$	$	$	$	$	$
Over $600, and not over $10,000,[1]	172,770.35	7,944,153.51	9,697,246.96	. . . .	. . . .	. . . .
Over $10,000[1]	277,461.65	6,855,160.37	9,362,339.46	. . . .	. . . .	. . . .
From property of citizens residing abroad[1]	1,872.11	58,674.51	169,924.17	. . . .	. . . .	. . . .
From interest on United States securities[1]	3,637.15	75,373.93	133,402.76	. . . .	. . . .	. . . .
Over $600, and not over $5,000[2]	. . . .	. . . .	539,143.28	26,046,759.76	31,492,694.16	. . . .
Over $5,000[2]	. . . .	. . . .	801,941.99	34,501,122.67	25,547,946.51	. . . .
Over $1,000[3]	. . . .	. . . .	. . . .	. . . .	. . . .	32,027,610.78
Over $2,000[4]	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
From bank dividends and additions to surplus	766,605.85	1,577,010.73	3,991,211.42	4,193,070.61	3,278,322.56	2,914,841.41
From bank profits, not divided or added to surplus	. . . .	. . . .	25,511.49	47,592.59	496,652.76	709,933.58
From canal companies' dividends, etc.	4,210.40	92,120.69	386,223.13	203,233.77	195,382.19	215,279.96
From insurance companies' dividends, etc.	225,485.44	445,366.17	768,770.93	783,882.05	563,473.93	605,489.78
From railroad companies' dividends, etc.	338,533.49	927,393.38	2,471,914.39	2,205,852.45	3,379,262.19[5]	2,630,174.08
From railroad companies' interest on bonds	253,998.72	596,859.09	847,683.61	1,255,916.985	. . . .	1,259,155.80
From turnpike companies' dividends, etc.	1,101.38	17,494.73	28,212.03	27,333.46	30,703.06	49,551.57
From salaries of United States officers and employees	696,181.71	1,705,124.63	2,826,491.82	3,717,394.69	1,029,991.98	1,043,561.40
TOTAL COLLECTIONS	2,741,858.25	20,294,731.74	32,050,017.44	72,982,159.03	66,014,429.34	41,455,598.36

INCOMES AND CLASSES.	1869.	1870.	1871.	1872.	1873.	TOTAL.
INCOME—	$	$	$	$	$	$
Over $600, and not over $10,000,[1]	. . . .	. . . .	. . . .	. . . .	. . . .	17,814,170.82
Over $10,000[1]	. . . .	. . . .	. . . .	. . . .	. . . .	16,494,961.48
From property of citizens residing abroad[1]	. . . .	. . . .	. . . .	. . . .	. . . .	230,470.79
From interest on United States securities[1]	. . . .	. . . .	. . . .	. . . .	. . . .	212,413.84
Over $600, and not over $5,000[2]	. . . .	. . . .	. . . .	. . . .	. . . .	58,078,597.20
Over $5,000[2]	. . . .	. . . .	. . . .	. . . .	. . . .	60,851,011.17
Over $1,000[3]	25,025,068.86	27,115,046.11	10,680,966.69	. . . .	. . . .	94,848,692.44
Over $2,000[4]	. . . .	. . . .	3,753,982.70	$8,416,685.87	3,927,252.76	16,097,921.33
From bank dividends and additions to surplus	3,769,185.69	3,573,272.45	1,542,667.75	2,162,564.31	85,271.23	27,854,024.01
From bank profits, not divided or added to surplus	. . . .	. . . .	. . . .	. . . .	. . . .	1,279,690.42
From canal companies' dividends, etc.	230,602.81	251,048.75	47,042.89	136,052.35	24,615.17	1,785,812.11
From insurance companies' dividends, etc.	847,668.33	926,519.00	243,205.21	270,531.14	8,675.17	5,689,070.15
From railroad companies' dividends, etc.	2,831,140.03	2,898,802.31	1,121,439.59	1,851,296.30	760,930.35	21,416,738.56
From railroad companies' interest on bonds	1,503,846.51	1,869,369.34	974,345.35	1,291,026.68	135,642.55	9,987,844.63
From turnpike companies' dividends, etc.	22,381.09	32,289.24	11,738.02	14,140.43	2,379.67	237,324.73
From salaries of United States officers and employees	561,962.52	1,109,526.42	787,262.55	294,564.65	117,541.72	14,029,994.88
TOTAL COLLECTIONS	34,791,855.84	37,775,873.62	19,162,650.75	14,436,861.78	5,062,311.62	346,908,738.56

[1] Act of July 1, 1862. [2] Act of March 3, 1865. [3] Act of March 2, 1867. [4] Act of July 14, 1870.
[5] Dividends and interest on bonds not returned separately.

In explanation of the preceding table, it is necessary to remember that collections for the fiscal years of 1863 and 1864 from personal incomes are under Acts of Aug. 5, 1861, and July 1, 1862, at rates given in the text (collections under measure of 1861 are not reported separately); those of 1865 are in part under Act of 1862 and part under Act of 1864 (the triplicate division of the Act of June 30, 1864, not being made in the returns). The collections of 1866 and 1867 are under Act of 1865; those of 1868, 1869, and 1870 under Act of 1867; and those from 1871 to 1873 inclusive are under Act of 1870. The collections from corporations up to 1864 are at three per cent; afterwards at five per cent.

As will be seen, the increased rates imposed in 1864 did not begin to yield largely until two years after their imposition, a fact not traceable to the slowness with which the duties became operative so much as to the fact that the returns given are for fiscal instead of calendar years. The new rates were not assessed until May, 1865, and returns were not required until early in the fiscal year 1866. This also accounts for the fact that the measure of 1861 did not begin to yield until 1863.

It is further of interest to note that the receipts at three and five per cent under the law of 1862 bear approximately the same relation to each other as do the receipts under the later Act of 1864. This same parity is observable when we examine the returns of taxables. In 1866, from one hundred and eighty-five of the two hundred and forty collection districts, 190,189 returns were made of incomes over $600 and under $1,000; 162,513 of more than $1,000 and less than $5,000; while 31,009 persons acknowledged incomes in

excess of the latter amount. Presuming this ratio to hold for the remaining fifty-five collection districts, the number of taxables returned for the year 1866 could not have been more than 500,000 at the utmost. At this time the population of the country approximated thirty-six millions, and estimating one taxable for every five persons, it appears that but one person in every fourteen and one-half taxables, or in seventy-two persons, received an income in excess of $600, a showing indicative of a comparatively high standard of living, as well as of a close collection of the tax. In a like manner, as indicative of the territorial distribution of the duty, it may be cited that from one collection district in New York the income tax receipts for the fiscal year 1867 were $5,496,233, while the total revenues collected for the same year from this source in the eleven States of Virginia, Texas, Tennessee, South Carolina, North Carolina, Mississippi, Louisiana, Alabama, Georgia, Arkansas, and Florida, were less than one-half that amount.[1] As confirming this territorial inequality, it is interesting to note that in 1869 Massachusetts, New York, New Jersey, Pennsylvania, Ohio, Illinois, and California, although possessing but forty per cent of the total wealth and population of the country, paid upwards of three-fourths of the entire tax collected.

Following the Act of March 2, 1867, which increased the exemption allowed to $1,000, the number of tax-

[1] The collections on account of the income tax for the fiscal year 1867 from these States was as follows: from Florida, $14,197; Arkansas, $34,980.13; Mississippi, $60,740; South Carolina, $62,208.48; North Carolina, $62,450.58; Virginia, $204,623.41; Texas, $155,340.80; Tennessee, $396,327.86; Louisiana, $586,282.42; Georgia, $320,552.07; Alabama, $404,036.77; Total, $2,301,739.

ables returned manifested a considerable falling off, while the receipts were diminished by about one-half. During the four years of the operation of the revised rate, the average number of taxables returned was 267,210, of which number nearly sixty per cent paid taxes in excess of twenty dollars.

As a crowning enactment of this long period of experimentation, the limit of exemption was increased in 1870 to $2,000, with the avowed intention of relieving all save comparatively large incomes from its operation. At the same time the rate was reduced to two and a half per cent, at which point it remained until 1872, when the tax expired by limitation.

From the experience of these years it is not possible to draw any absolute conclusions as to the availability of the income tax for Federal purposes, inasmuch as the measure of a tax lies largely in its fitness to conditions and the times; and the defects of the duty during this period were largely administrative in character, traceable to the inefficiency of its administration. The entire service was experimental, the men untrained, and the machinery imperfect; and, had the tax been never so well suited to our political and social conditions, its productivity would have suffered greatly from this cause.

III. TAXES ON CORPORATIONS.

A. *The Gross Receipts Tax on Railroads, Advertisements, Bridges, Canals, Express Companies, Ferries, Lotteries, Ships, Barges, Stages, Steamboats, Telegraph and Insurance Companies, and Museums, Operas, Circuses, etc.*

With the possible exception of the taxes on distilled and fermented liquors, there are probably no subjects

better fitted for taxation by the Federal government than certain corporations whose business is of an interstate character. Unsuited as they are for State and local taxation, from the difficulty of localizing the *situs* of their property, as well as from the character of their business, and circumscribed as the local divisions are by judicial decisions which deny to them the power to tax more than a limited portion of their earnings, such corporations are eminently fitted for taxation by the nation at large, to which none of these restrictions apply.[1]

The plan of taxing according to gross receipts was by no means new at the outbreak of the war, and legislation but followed the approved practices of the States in selecting such a method of reaching this form of property.

Aside from receipts from advertisements, the gross receipts tax was imposed upon a limited number of corporations by the measure of 1862. By its provisions, railroads, toll bridges, and steamboats were rendered dutiable at the rate of three per cent upon the gross receipts from the transportation of passengers, while ferry-boats and railroads propelled by other means than steam paid one and a half per cent. Returns and payments of the tax were required to be made monthly, under oath, by the proper official, and in case of neglect or refusal the collector was authorized to inspect the books of the company and make up his returns from that source, and add thereto a penalty of five per cent; while any attempt to evade payment of the duty rendered the corporation liable to a penalty of $1,000. It

[1] For an exhaustive account of the devices adopted by the States in their efforts to tax this class of property, see Professor E. R. A. Seligman's "The Corporation Tax," in his "Essays on Taxation."

was further provided that the companies should have the right to add the tax to the fare of the passengers. Receipts from advertisements were dutiable at the rate of three per cent.

At the same time a system of stoppage, in aid of the collection of the income tax, was provided, by which the income derived from bonds of railroads, or arising from dividends on stock, should be collected from the railroad itself, instead of from the individual directly, who was permitted subsequently to deduct the same in making up his individual return of income.

The receipts from the gross receipts tax were at first insignificant, being but $1,661,273 in 1863, and twice that sum in 1864. But the manifold advantages of the tax becoming apparent, it was extended by later enactments to canal-boats and stage-coaches,[1] to apply to all receipts, whether from passengers or freight, with the rate reduced upon all transmission companies to two and one-half per cent, while the duty remained unaltered on toll-roads, ferries, and bridges.[2] Express companies were added to the list at three per cent, as were telegraph companies at five per cent, and theatres, operas, circuses, and museums at two per cent in addition to their regular license charges.

The system of stoppage in aid of the income tax was also gradually extended to canal and slack-water navigation and turnpike companies, as well as to banks, trust, savings, and insurance companies.[3] The latter

[1] Act of June 30, 1864.

[2] By Act of March 3, 1863, toll-roads and bridges had been taxed at two per cent, and ferry-boats at one and one-half per cent.

[3] Act of June 30, 1864.

class of corporations were assessed upon their gross premiums, the rate subsequent to 1864 being one and a half per cent.

With the close of the war and the confusion of commercial and industrial relations which ensued, it was deemed wise to retain the several taxes upon corporations, along with the income, license, and stamp taxes, because of their inability to affect prices or industrial relations, as did the general excise. In 1866,[1] however, the gross receipts tax was made uniform at two and one-half per cent upon all receipts of railroad, steamboat, ship, barge, canal-boat, or stage-coach companies, toll-roads and bridges; telegraph lines were made dutiable at the former rate of three per cent; while any corporation whose gross receipts did not exceed $1,000 was wholly exempted.[2] At this rate the duty remained until 1870, when all the gross receipts taxes were repealed.[3]

The receipts from railroad and insurance companies, from the gross receipts tax, as well as the taxes collected on account of the income duty, are shown in tabular form on the following page.

The duty on dividends and interest payments was three per cent up to 1864, afterwards five per cent. The tax was thereafter imposed on all profits carried to the account of any fund or used in construction. Collections from this source, i.e., profits, etc., are included in dividends, and were made on behalf of the income tax.

[1] Act of July 13.

[2] By Act of March 2, 1867, all gross receipts taxes were reduced to two and one-half per cent, while those on advertisements and toll-roads were repealed.

[3] By Act of July 14.

Receipts from Railroads on behalf of Income and Gross Receipts Taxes.

	1863.	1864.	1865.	1866.	1867.
	$	$	$	$	$
Duty on dividends .	338,533	927,393	2,470,817	2,205,804	3,379,262
Int. paid on bonds .	253,999	596,859	847,684	1,255,916	
Gross receipts . .	1,106,817	2,127,249	5,917,293	7,614,448	4,128,255
	1868.	**1869.**	**1870.**	**1871.**	**TOTAL.**
	$	$	$	$	$
Duty on dividends .	2,630,174	2,831,140	2,898,802	1,121,439	[1] 21,416,738
Int. paid on bonds .	1,259,155	1,503,846	1,869,369	974,345	[1] 9,987,844
Gross receipts . .	3,134,337	3,255,487	3,732,209	1,637,911	32,654,008

[1] The totals of collections from dividends and interest paid on bonds are not exact, as they also include some collections for 1872 and 1873 which are not given in detail.

Receipts from Insurance Companies on behalf of Income and Gross Receipts Taxes.

	1863.	1864.	1865.	1866.	1867.
	$	$	$	$	$
Dividends and Additions to Capital Stock[1]	225,485	445,366	764,658	767,231	563,473
Premiums and Assessments	321,002	523,582	961,503	1,169,722	1,326,014
	1868.	**1869.**	**1870.**	**1871.**	**TOTAL.**
	$	$	$	$	$
Dividends and Additions to Capital Stock[1]	605,489	847,668	926,519	243,205	5,689,070
Premiums and Assessments	1,288,745	1,323,330	1,324,454	445,547	8,683,902

[1] These collections are on behalf of income tax.

The rate upon dividends was the same as upon railroads. That upon premiums was one per cent to July 1, 1864, payable quarterly, subsequently one and a half per cent, payable monthly.

The collections from the other classes of corporations, through the gross receipts tax, were as follows: —

Receipts from Gross Receipts Tax on following Corporations from 1863 to 1871.

	ADVERTISEMENTS.	BRIDGES.	CANALS.	EXPRESS CO.'s.	FERRIES.	LOTTERIES.	SHIPS, BARGES.	STAGES.	STEAMBOATS.	THEATRES, OPERAS, ETC.	TELEGRAPH CO.'s.
	$	$	$	$	$	$	$	$	$	$	$
1863	40,628	18,674	. . .	2,680	20,851	. . .	. . .	. . .	150,619		
1864	133,315	36,354	. . .	267,772	60,074	. . .	. . .	. . .	278,096		
1865	227,530	75,268	92,421	529,275	126,132	29,248	431,210	469,187	638,812	140,441	215,050
1866	290,605	108,136	99,267	645,769	48,763	78,072	39,321	572,519	84,845	202,520	308,437
1867	288,009	115,461	45,282	558,359	137,239	74,484	4,876	241,297	91,805	194,039	239,594
1868	2,903	53,563	9,985	671,949	132,652	65,126	44,268	186,585	263,450	211,800	214,699
1869	. . .	51,257	6,494	579,567	144,978	60,329	36,967	183,128	222,964	231,052	205,441
1870	. . .	64,416	6,857	459,406	154,501	160,956	31,932	159,058	283,601	261,187	256,216
1871	. . .	24,697	2,278	168,201	62,368	49,045	12,223	76,203	128,648	83,641	109,796
	982,992	547,829	262,587	3,882,983	887,563	517,263	600,800	1,187,980	2,142,845	1,324,683	1,549,236

The tax was one of the most effective and successful sources of revenue devised, and produced during these years nearly fifty-five millions of dollars.

B. *Banks, Trust Companies, Savings Institutions.*

In the taxation of this kind of corporations, a mixed system prevailed. At first[1] no distinction was made between banks and insurance companies, and the tax was assessed at three per cent upon dividends and additions to the surplus or contingent funds. By later provisions, however, a distinction was made, and net profits were discarded as a measure of ability; and a mixed method, such as had been in operation in some of the States, was introduced. In 1864 the license duty was increased to $100 upon all banks having a capital stock of $50,000, with an increase of $2 for each additional $1,000 increase of capital stock: while, in addition, there was added a duty of one twenty-fourth of one per cent each month upon the average amount of deposits for the preceding month; a tax of like amount upon the average amount of capital employed; and a duty of one-twelfth of one per cent each month upon the average amount of circulation issued by the bank, provided it did not exceed ninety per cent of the capital of the company, in which case one-sixth of one per cent upon any increase of circulation beyond the latter amount was imposed. In the case of banks having branch establishments, each branch was assessed separately; but these duties did not apply to any of the banks organized under the new national banking Act, which made their

[1] By Act of July 1, 1862.

returns to the comptroller, nor to any savings bank conducted upon the mutual plan. The receipts from banks, trust companies, and savings institutions, were as follows: —

Receipts from Banks, Trust and Savings Companies, for the Fiscal Years: —

	1863.	1864.	1865.	1866.
Dividends and Additions to Surplus	$ 766,606	$ 1,577,011	$ 3,987,210	$ 4,186,023
Circulation	. . .	2,056,996	1,993,342	990,328
Deposits	. . .	780,723	2,040,933	2,099,635
Capital	. . .	. . .	902,835	374,074
	1867.	**1868.**	**1869.**	**1870.**
Dividends and Additions to Surplus	$ 3,774,975	$ 3,624,774	$ 3,769,185	$ 3,573,272
Circulation	208,276	26,901	14,110	13,615
Deposits	1,355,395	1,438,512	1,734,417	2,177,576
Capital	476,867	399,562	445,071	827,087

The duty on dividends was three per cent to June 30, 1864, after which date it was five per cent. This is more properly a collection on account of the income tax. Capital was first rendered dutiable in 1864. The rapid diminution in the receipts from circulation after 1865 is due to the conversion of State banks into national ones.

The returns from national banks are not included in the above, but were collected by the Treasurer of the United States. In 1867 the comptroller made a careful statement of the taxes on national banks for the year 1866, from which it appears that they paid during that year over sixteen millions of dollars in United States and State taxes, as follows: —

Taxes paid by National Banks in 1866.

To the United States government	$8,069,937
To the several States	7,949,451

The amount of taxes paid to the several States was derived from specific returns of about fourteen hundred banks, the minimum rate in each State being calculated for those banks which made no returns.

The taxes were payable semi-annually, upon outstanding circulation, deposits, and capital not invested in United States bonds.

The amount of taxes collected by the Treasurer from Jan. 1, 1864, to Jan. 1, 1872, from these sources, was as follows: —

On circulation	$19,177,734.54
On deposits	18,611,945.72
On capital	2,453,025.17

The taxes on corporations were collected directly by the internal revenue office at Washington; and the whole work, which was well done, was handled by less than fifteen clerks, at an average annual cost of about $20,000.

IV. ASSESSED TAXES, KNOWN AS SCHEDULE "A."

The assessed taxes, as levied during the war, were viewed as duties upon expenditure, and correspond to the direct consumption taxes of the English system. Levied, as they were, mainly upon certain classes of luxuries, but little objection can be raised to them, were it but possible to secure a fair and equitable assessment. But the experience of our States has demonstrated this to be well-nigh impossible; and while such taxes have always been more or less popular in this country, where the principle seems to obtain that equality in taxation

is only consistent with universality in taxation, late years have tended to their elimination from the tax schedules of many States. In a federal system such taxes are especially objectionable; inasmuch as they necessitate that inquisitorial penetration into private affairs which is borne only with impatience in local taxation, but which becomes intolerable when the tax-gatherer bears Federal credentials. Indefinite in their productivity and inelastic in character, they tend to extend the objects of taxation unduly, and combine almost all the defects of the excise with those of the income and direct land tax. As a rule, they are being abandoned by other countries.

. The schedule of assessed taxes subsequent to the amendatory law of 1864 was as follows: —

Billiard-tables kept for private use or hire .	$10.00
Carriages for private use or hire, according to value, from	1.00 to 10.00
Pianofortes for private use, according to value, from	2.00 to 6.00
Gold plate for private use or hire, per ounce troy	.50
Silver plate for private use or hire, per ounce troy	.05
Watches, below $100 in value	1.00
Watches, above $100 in value	2.00
Yachts for private use or hire, according to value	5.00 to 100.00

These rates differ from the earlier measures only in the addition of gold watches and piano-fortes to the list of taxables, and in the fact that the rates are somewhat higher.

The same improvement in the collection of the duty marked in other taxes is noticeable here; but, at the same time, there are none which show more strikingly

how far from universal was the collection. As will be seen from the table given below, the revenues show a gratifying increase during the five years from 1863 to 1867, in the last two years increasing nearly one hundred per cent annually. Of the increase in 1866, gold watches produced $426,557, and pianofortes $403,572. The receipts were as follows: —

Receipts from Assessed Taxes for Fiscal Years: —

ARTICLES.	1863.	1864.	1865.
Billiard-tables	$ 10,730.80	$ 67,999.59	$ 67,753.70
Carriages	243,704.05	320,076.12	322,720.21
Plate of gold and silver	108,736.58	130,090.65	118,113.57
Watches, gold	. . . .	. . . .	9,138.61
Pianofortes kept for use	. . . .	. . . .	7,751.82
Yachts kept for use	2,459.50	2,673.50	2,098.33
Imported spirits	. . . .	176,038.57	252,690.29
TOTAL	$365,630.93	$696,878.43	$780, 266.53

ARTICLES.	1866.	1867.	1868.
Billiard-tables	$ 17,353.05	$ 20,761.14	$ 23,422.12
Carriages	624,457.62	183,855.58	224,604.85
Plate of gold and silver	216,574.37	287,842.93	252,563.70
Watches, gold	426,557.17	619,062.61	605,788.71
Pianofortes kept for use	403,572.27		
Yachts kept for use	4,408.25	1,005,152.11	27,960.60
Imported spirits	200.00		
TOTAL	$1,693,122.73	$2,116,674.37	$1,134,339.98

ARTICLES.	1869.	1870.	1871.	TOTAL.
Billiard-tables	$ 22,805.92	$ 25,775.56	$ 13,487.70	$ 270,089.58
Carriages	184,035.00	190,711.45	83,005.13	2,377,170.01
Plate of gold and silver	204,733.13	198,115.89	90,145.84	1,606,916.66
Watches, gold	471,286.68	492,839.19	190,221.78	2,814,894.75
Pianofortes kept for use	10,792.73	. . . .	. . . .	1,455,229.53
Yachts kept for use				11,639.58
Imported spirits				428,928.86
TOTAL	$893,653.46	$907,442.09	$376,860.45	$8,964,868.97

Such a showing indicates that time is a most essential element in an efficient system of taxation; but, at the same time, it is difficult to believe that anything like a full assessment was secured at any time.

The assessed taxes were among the least defensible of the taxes imposed during this period, the revenues derived therefrom being inconsiderable in amount, and the effect upon the public irritating beyond measure. Even more keenly than the income tax did the public resent this invasion into its private affairs, while the ease of evasion rendered it one of the most unequal of taxes, as well as a constant incentive to dishonesty and perjury. Although modified to some extent, it was not until 1870 that they were repealed.[1]

[1] Act of July 14, 1870.

CHAPTER V.

TAXES ON SUCCESSIONS, ACTS AND TRANSFERS, INSTRUMENTS, COMMODITIES, AND BUSINESSES.

I. DUTIES UPON LEGACIES AND DISTRIBUTIVE SHARES OF PROPERTY.

A. *Legacy and Succession Duties.*

Taxes upon inheritances and bequests, or death duties as they are termed in England, may best be regarded as capitalized income taxes, paid once for all at the close of life on the accumulated possessions of the decedent. These taxes usually accompany the income tax, and have been so largely developed in recent times as to have become a recognized part of nearly every well-ordered scheme of taxation. Previous to the war, however, they were but little used by our States, and then only as imposed upon collateral inheritance.[1] By the provisions of the early Acts of Congress, only personalty in excess of $1,000, transferred by bequest or inheritance, was subject to the duty; and the rate was graduated according to the consanguinity of the recipient of the estate. By the later Act of 1864, however, its provisions were extended to real estate, and the following rates were established: —

[1] The tax has existed in Pennsylvania since 1826, and in Maryland since 1844; but since that time it has been incorporated in the laws of many States.

Legacies or inheritances to—

Lineal issue, or ancestor, brother or sister[1] . . .	1 per cent.
Descendant of brother or sister	2 " "
Uncle or aunt, or descendant of same	4 " "
To great uncle or aunt, or descendant of same .	5 " "
Stranger in blood	6 " "

A minimum deduction of $1,000 was allowed the representatives, while estates devolving upon husband or wife were entirely exempt. The tax was a first lien upon the estate of the decedent, and was required to be paid before it passed into the hands of the representatives. In case of failure to make return, or on evidence of falsity in the same, the assessor was empowered to proceed and make his own assessment, and distrain sufficient property to satisfy the tax. The rates were soon recognized as incommensurate with those imposed on other objects, which fact, together with the newness of the law, as well as the ignorance of the public and the assessors with its application, rendered it less productive than had been expected. So incomplete, indeed, was the assessment, that the Special Commissioner of the Revenue estimated that but a fraction of the tax was collected;[2] for instead of producing $4,000,000, as he estimated that it should have done, it turned into the Treasury in 1865 but $543,000. A similar tax was producing at that time in Great Britain over $11,000,000. In New York alone, where the transfers of property by death amounted in a single year to $31,000,000, it should have produced, at the uniform rate of one per cent, $310,000, or two-thirds

[1] In the case of realty the rate imposed upon the succession of brother or sister was two per cent.

[2] Report, 1867, p. 40.

the amount collected for the entire country. Again, when it is considered that the entire wealth of the country changes hands once every thirty-two years (assuming that period to be the lifetime of a generation), it is evident that a very small tax-rate ought to be productive of a very large revenue.

Assuming $14,830,000,000 (the census estimate for 1860) to be the wealth of the country, and computing that it changes hands once in the course of a generation, the tax should have produced $4,600,000 anually at the uniform rate of one per cent. As a matter of fact, only about two-thirds of the revenue collected accrued at this rate; so that, had the duty been fully assessed, it should have returned to the Treasury upwards of $6,000,000.

From 1865 down to the repeal of the tax in 1870, the collections steadily increased in amount, owing to the growing familiarity of the public and officials with the law. In 1866 the receipts had risen to $1,170,977. During the four years next succeeding they steadily increased, until, in 1870, $3,091,824 was returned.

The repealing Act of 1870 did not waive the claim of the government to any "taxes properly assessed or liable to be assessed or accruing under the provisions of former Acts;" and in 1875 the Commissioner of Internal Revenue issued a circular, offering rewards to any informers who would mouse the probate records, and report cases of unpaid taxes. The effect of this ruling was to cause much annoyance to many innocent administrators, heirs, and legatees who had never heard of the tax, and to whom the duty, to which was added the penalty, was a great injustice.

The receipts from the tax were as follows: —

Receipts from Intestate Succession.

Consanguinity.	For Fiscal Years ended June 30, —			
	1863.	1864.	1865.	1866.
Successions —				
Lineal issue or ancestor,	. . . .	. . . .	$24,043.88	$175,789.10
Brother or sister, or descendant of same . .	. . . .	. . . .	8,468.35	49,899.07
Uncle or aunt, or descendant of same . .	. . . .	. . . .	1,166.75	1,902.02
Great uncle or aunt, or descendant of same .	. . . .	. . . .	. . . .	1,460.63
Stranger in blood . . .	. . . .	. . . .	6,272.34	17,104.06
Total	. . . .	. . . .	$39,951.32	$246,154.88

Consanguinity.	For Fiscal Years ended June 30, —		
	1867.	1868.	1869.
Successions —			
Lineal issue or ancestor,	$455,188.55	$910,794.70	$852,487.82
Brother or sister, or descendant of same . .	104,381.81	222,386.63	182,167.38
Uncle or aunt, or descendant of same . .	9,639.32	20,174.14	12,952.44
Great uncle or aunt, or descendant of same .	7,780.86	4,840.77	3,796.91
Stranger in blood	59,579.65	146,827.36	138,351.67
Total	$636,570.19	$1,305,023.60	$1,189,756.22

Consanguinity.	For Fiscal Years ended June 30, —		Total.
	1870.	1871.	
Successions —			
Lineal issue or ancestor,	$977,068.40	$751,176.79	$4,146,549.24
Brother or sister, or descendant of same . .	222,196.35	171,843.72	961,343.31
Uncle or aunt, or descendant of same . .	32,775.00	16,511.66	95,121.33
Great uncle or aunt, or descendant of same .	9,754.46	1,499.28	20,132.91
Stranger in blood . . .	177,448.36	133,948.34	679,531.78
Total	$1,419,242.57	$1,074,979.79	$5,911,678.57

Receipts from Legacies.

Consanguinity.	For Fiscal Years ended June 30, —			
	1863.	1864.	1865.	1866.
Legacies to —				
Lineal issue or ancestor, brother or sister . .	$25,869.16	$176,917.33	$298,756.48	$642,081.67
Descendant of brother or sister	11,332.63	37,648.61	87,081.04	105,531.17
Uncle or aunt, or descendant of same . .	634.56	12,232.63	25,840.81	28,993.27
Great uncle or aunt, or descendant of same .	285.78	322.22	16,460.79	11,300.39
Stranger in blood . . .	18,470.48	84,040.23	78,612.73	136,917.47
Total	$56,592.61	$311,161.02	$506,751.85	$924,823.97

Consanguinity.	For Fiscal Years ended June 30, —		
	1867.	1868.	1869.
Legacies to —			
Lineal issue or ancestor, brother or sister . .	$783,126.52	$1,033,833.57	$858,428.84
Descendant of brother or sister	177,394.46	172,854.33	142,406.46
Uncle or aunt, or descendant of same . .	32,075.56	40,375.63	42,549.01
Great uncle or aunt, or descendant of same .	15,012.71	13,506.37	20,680.03
Stranger in blood . . .	221,135.71	257,817.74	180,772.67
Total	$1,228,744.96	$1,518,387.64	$1,244,837.01

Consanguinity.	For Fiscal Years ended June 30, —		Total.
	1870.	1871.	
Legacies to —			
Lineal issue or ancestor, brother or sister . .	$1,022,834.88	$874,946.37	$5,716,794.82
Descendant of brother or sister	232,251.13	216,356.56	1,182,856.39
Uncle or aunt, or descendant of same . .	28,217.77	38,646.13	249,565.37
Great uncle or aunt, or descendant of same .	11,907.71	13,366.56	102,842.56
Stranger in blood . . .	377,371.44	286,771.72	1,641,910.19
Total	$1,672,582.93	$1,430,087.34	$8,893,969.33

B. *Probate, Administration, and Inventory Duties collected by Means of Stamps.*

In addition to the taxes upon legacies and successions assessed upon the value of the property transferred, certain other charges collected by means of stamps were assessed upon the administration of the estate of the decedent. Probably the first reference to inheritance taxes in the United States is to be found in the report of a special committee on finance, which recommended to the House of Representatives, in 1794, the imposition of graduated stamp duties upon inventories of the effects of deceased persons, receipts for legacies of personal property according to the value thereof, as well as upon the issuance of letters of administration, and the probate of wills.[1]

Three years later, among other duties upon legal instruments, there were levied the following taxes to be collected by means of stamps:[2] —

Upon receipts for legacies and shares of personal property: —

Between	$ 50 and	$100, a tax of	$0.25
Between	100 and	500, a tax of	0.50
For each additional		500, a tax of	1.00

Shares under $50 were exempt, as were those of widows, children, and grandchildren.

The Act continued in force four years, and was repealed in 1802, along with the other internal taxes. During the war of 1812 no taxes upon inheritances were levied, although Secretary Dallas, in the closing

[1] State Papers, Finance, vol. i., p. 277. [2] Act of July 6, 1797.

days of the struggle, reported a plan to Congress for their imposition.

By the Act of July 1, 1862, the following stamp duties were imposed upon the probate of wills or letters of administration: —

Where the estate does not exceed			$ 2,500,	a tax of	$ 0.50
Where the estate exceeds	$ 2,500	but not	5,000,	a tax of	1.00
Where the estate exceeds	5,000	but not	20,000,	a tax of	2.00
Where the estate exceeds	20,000	but not	50,000,	a tax of	5.00
Where the estate exceeds	50,000	but not	100,000,	a tax of	10.00
Where the estate exceeds	100,000	but not	150,000,	a tax of	20.00

By the Act of June 30, 1864, the above duties were increased to $1.00 on any estate below $2,000; while for every $1,000, or fraction thereof in excess of $2,000, an additional 50 cents was charged. In addition, all bonds, receipts, or other legal documents connected with the administration of an estate, were also taxable.

II. TAXES UPON LEGAL INSTRUMENTS, COMMERCIAL TRANSACTIONS, AND COMMODITIES, COLLECTED BY MEANS OF STAMPS.

Like the *impots de timbre* of France and the stamp taxes of England, the stamp tax does not designate a separate tax as such, but merely denotes the mode of collecting taxes upon certain acts, instruments, or commodities by means of stamped government paper. Modern society has accepted this method of making collections as at once the easiest, and as offering great conveniences for apportioning a tax according to value.

At the present time, substantially all internal revenues

are collected by this means, although during the war the use of the term was restricted to the duties upon acts, instruments, and the transfers of property, as well as to the method employed in taxing certain kinds of commodities, as patent medicines, cosmetics, drugs, and playing-cards. Since 1868 the duty upon tobacco, malt liquors, distilled spirits, and licenses has been collected in this way, as the use of stamps has not only simplified the administration, but has been found to deter evasion by rendering it easily discoverable.

The experience of the government during the period under consideration seems to indicate that these taxes were among the most satisfactory hit upon by Congress in its search for sources of revenue; for they were not only productive from the start, producing ten per cent of the revenues in 1863, but were found to be very elastic, and susceptible of indefinite increase as business became adjusted to their use. Inexpensive to collect, they bore mainly upon those whose transactions were frequent, and, in the case of legal and commercial transactions, were a payment for a privilege enjoyed. Industry was not greatly disturbed by them, nor were prices; for they were specific in amount and easily computed. They were imposed upon written or printed instruments, or the commodity itself, and derive their name from the fact that the stamp bore upon its face the amount of the duty paid.

By the law of 1862 these taxes were imposed upon a great variety of articles and proceedings, which may be divided into three general classes, as follows: (1) taxes on legal instruments, as writs, deeds, contracts, mortgages, conveyances, leases, manifests, probates, pow-

ers of attorney, etc.; (2) those upon commercial processes, as checks, drafts, and foreign and inland bills of exchange, bills of lading, parcels by express, bonds, certificates of stocks, insurance policies, charter parties, etc; (3) taxes upon commodities, as patent medicines, perfumery, cosmetics, playing-cards, and other products which could be more easily assessed by this means than by the general ad valorem or specific taxes. In the majority of cases, the tax was essentially proportional, and was assessed either according to the amount of the consideration specified in the instrument, or to the value of the commodity itself. For example, the fee for recording a mortgage ranged from fifty cents on a consideration of $500, to $15 on $20,000, while the duties upon commercial processes and manufactured products conformed to a rough ad valorem rate. Foreign bills of exchange were taxed at a lower rate than inland bills, although both were proportional; while telegraph despatches, express packages, etc., were taxed in a like manner. The rate upon patent medicines, cosmetics, playing-cards, perfumery, etc., was four per cent. To insure observance of the tax, penalties were imposed for failure to affix a stamp; while an even more efficient check to evasion lay in the invalidity of the instrument itself and its inadmissibility as evidence. In order to prevent the re-use of stamps, the person affixing the same wrote across the face his initials and the date of use. Under certain regulations persons were permitted to prepare and use their own stamps, and were allowed a commission thereon.

Later laws modified these provisions but little. Rates were made more uniformly proportional, while a number

of new articles, notably matches and photographs, were included in the schedule. As a rule, the taxes were so inconsiderable in amount as to be but little objectionable; but in the case of mortgages they were rather oppressive. Declared payable by the person in whose favor the instrument was drawn, the tax amounted to a one mill charge, repeated every time the mortgage was renewed; and, inasmuch as such instruments are frequently made under the pressure of distress, a tax at such a time is most inconvenient, and may cause some hardship. Discounts were also granted large purchasers of stamps of five per cent upon quantities between fifty and five hundred dollars, and of ten per cent upon quantities in excess of that sum. In this provision lay a great injustice, which later tended to the stimulation of combination in production; since small manufacturers were frequently unable either to advance the tax or to take advantage of the discounts, which were sufficiently large to be of themselves a remunerative profit to the large purchaser. As a consequence, they were frequently forced to the wall, or into combination with other producers, as was the case of the match monopoly, which for years controlled that industry in this country, and which is said to have been rendered possible, and later fostered, by this sort of special legislation. Yet another objection may be urged against these taxes because of their interference with industry; for while it cannot be asserted that the tax was in many instances a serious check to trade or commercial transactions, still it was an irritant, insisting, as it did, upon the affixing of a stamp to every check or receipt, and upon every bill of exchange a graduated tax. To this

extent it interfered with credit transactions, and rendered trade less spontaneous and free than it otherwise would have been.

When interfering with the minutiæ of trade in this way, such taxes may well be the cause of complaint; in so far as they are applied only to transfers of considerable amount by deed or other instrument, but little objection can be made to them, inasmuch as they then assume the form of a fee, and are a partial concession to that school of advocates who view taxes as a payment for services rendered.

The stamp tax was from the start productive, easy of assessment, and very elastic. From its inauguration in 1863, down to the partial repeal subsequent to the close of the war, the receipts steadily increased in amount, owing to the growing familiarity of the public with the law, until in 1867 it produced $16,094,718, which sum the secretary estimated could be further increased to $20,000,000 without material alteration in the law.[1] All things considered, it was one of the most satisfactory experiments of Congress, but from the administrative point of view it had possibly most to commend it. Upon this point the commissioner, writing in 1863, says: "Among the most satisfactory branches of our excise law must be reckoned that which levies stamp duties on documents and evidences. This tax is of all others the most cheaply and easily collected, and most cheerfully borne; and, in the future development of our system, it is the one from which most advantage may yet be expected from a gradual and judicious extension."[2]

[1] Report on Finances, 1869, p. 12. [2] *Ibid.*, 1863, p. 70.

The receipts for the several years of its duration were as follows: —

1863 . . .	$4,140,175	**1868** . . .	$14,852,252
1864 . . .	5,894,945	**1869** . . .	16,420,710
1865 . . .	11,162,392	**1870** . . .	16,544,043
1866 . . .	15,044,373	**1871** . . .	15,342,739
1867 . . .	16,094,718	**1872** . . .	16,177,320

These receipts include collections from acts and instruments, as well as commodities. During the years of 1863 and 1864, the measure was by no means universally observed; and the later marked increase in receipts can only be traced to the growing familiarity of the public with the provisions of the law, as the increase in rates by the Acts of 1864 and 1865 was not material. In 1864 a duty on matches, which lingered long after the war as a memorial, was imposed, and produced upwards of a million of dollars during the first year of its operation.

From the returns, it appears that six-sevenths of the entire consumption consisted of two-cent bank-check and receipt stamps, the several stamps upon proprietary articles, and the duty on matches; while one-third of the total receipts in 1865 was derived from bank-checks, receipts, and matches, two and one half millions being derived from the two former sources alone. Large as the return from matches appears, it was considerably depleted by the large quantity produced and stored in anticipation of the tax.

From 1865, down to the complete repeal of the tax, the observance of the tax improved, and the law was all but universally observed.

III. THE TAX ON SALES AT AUCTION, OF APOTHECARIES, BUTCHERS, BROKERS, CONFECTIONERS, DEALERS, PLUMBERS, AND MANUFACTURERS.

A tax was first imposed upon property sold at auction at the instance of Hamilton, in 1794, who probably borrowed the idea from a similar tax imposed in England by Lord North in 1771 for the conduct of the war against the American Colonies. This tax continued in existence until 1800; and while the receipts therefrom continued to increase in importance, they never amounted to more than one-half the yield originally estimated. The tax was revived under the emergencies of the war of 1812, and remained in force for several years. Evasions of the tax were notorious. Assessments were voluntary, and the collection of the tax depended wholly upon the conscience of the auctioneer, to whom was intrusted the duty of collecting it.

The tax was revived in 1862,[1] and was levied at the rate of one-tenth of one per cent on the gross amount of receipts from sales at auction of real estate, goods, chattels, or securities. Returns were required monthly, under oath; but all sales under judicial proceedings were declared exempt. Two years later[2] the rate upon auction sales was increased to one-fourth of one per cent, and was extended to brokers and bankers at the rate of one-eighth of one per cent on sales of merchandise, produce, or goods; and of one-twentieth of one per cent on the par value of all sales of stocks and bonds, gold and silver bullion, foreign exchange, and promissory

[1] Act of July 1.

[2] Act of June 30, 1864.

notes. These taxes were in addition to the regular license fees.

From evidence taken by the Revenue Commission, it appeared that the rates upon brokers' sales were heavier than the business would bear, and widespread evasion was the result.[1] In conformity with its suggestions the rates on receipts from such sales were reduced to one cent on every hundred dollars of the amount of such sales, while an improvement in the method of assessment was introduced in the requirement that upon every contract or sale there should be affixed a stamp in value equal to the amount of the duty. By the same measure the rate on sales at auction was reduced to one-tenth of one per cent.[2] The result of these changes was to reduce receipts from the latter source by about one-half; from the former sixty per cent.

Although the taxes on sales were acknowledged to be notoriously evaded, constant pressure was brought to bear to have the method extended to all sales of goods and merchandise, as a substitute for the general excise upon manufactures and products. In the early days of the war the Chamber of Commerce of New York advocated such a measure, while the manufacturers of the country generally favored it. In 1864 the commissioner advocated a moderate resort to the tax on sales as a means for meeting a deficiency in the revenues, although he admitted that it was unsuited as a fixed portion of the system without important change. With it extended so as to include all sales of merchandise, at the rate of one-half of one per cent, levied the same as the taxes

[1] Report of Revenue Commission, p. 33.

[2] Act of July 13, 1866.

upon brokers and wholesale dealers, he estimated that $55,000,000 could be collected, a conclusion reached in the following manner: From the most reliable statistics available, it appeared that the value of all the products of the country for the year 1863 was $3,800,000,000. Assuming that, on an average, they would be sold four times before reaching market, and that three-fourths of the annual production was exchanged, it appeared that the annual sales of manufactures and products aggregated $11,000,000,000, upon which a tax of one-half of one per cent would yield $55,000,000. The advantages of such a tax were thought to be numerous. It would be immediately productive of a considerable sum, and would cause but little disturbance to industry. Payable out of money received, and at the time of receiving it, it would be easily borne. The seller would add the tax to the price, and anticipate the demands of the government; and the purchaser, if he bought to sell again, would reimburse himself from the consumer. The tax also commended itself to the commissioner by the facility of its assessment and collection.[1]

But the advantages claimed for the tax by the commissioner were, in reality, the main objections to it. Experience demonstrated the difficulty of securing anything like a fair return from those classes of business already subject to it, and the history of similar experimentation in our States but confirms it. If confined to manufacturers and producers, and levied but once, it would be no more objectionable than an ad valorem rate upon production; but when repeated at every operation and transaction from the time an article first

[1] Report on Finances, 1864, p. 60.

entered the market to the time of its final consumption, it becomes not unlike a barrier to all trade, checking that freedom of exchange so essential to large industrial life, and requiring in its assessment a multitude of officials and the most scrutinizing inquisition of business affairs. It would, moreover, be a breeding-school for perjury, and open the door for evasion on every hand. Such a tax can only be collected when limited to a few taxables, and even then should only be imposed as a last resort. Happily, the changes urged by the manufacturers at the suggestion of the commissioner were not made, although the application of the tax was considerably extended. In 1867 it was provided that apothecaries, butchers, confectioners, plumbers, and gas-fitters, whose annual sales exceeded $25,000, should pay one dollar for every $1,000 of sales in excess of said amount, in addition to the special license tax; while in 1868 certain classes of manufacturers, whose products were not otherwise taxed, were assessed at the rate of $2.00 per $1,000 on sales in excess of $5,000. These duties, like those on auctions, were self-assessed; yet they yielded considerable revenues; the duty upon dealers producing $4,002,655 in 1868, and on manufacturers $3,863,113 in 1870.

The last assessment of these taxes was made in 1871, and the receipts therefrom during the nine years of its operation were as shown on the two following pages.

IV. SPECIAL OR LICENSE TAXES UPON OCCUPATIONS AND GAINFUL PURSUITS.

In the taxation of business corporations, occupations, and gainful pursuits, federal legislation followed the methods in vogue in the majority of the States of assess-

Receipts from Sales.

Occupations and Transactions.	For Fiscal Years ending June 30—		
	1863.	1864.	1865.
	$	$	$
Apothecaries'	. . .	. . .	. . .
Auction	64,003.87	141,231.58	410,175.92
Butchers'	. . .	. . .	. . .
Brokers'—			
Cattle	. . .	. . .	. . .
Commercial	. . .	. . .	596,474.24
Sales of stocks, bonds, etc.	. . .	. . .	2,202,792.92
Sales of foreign exchange	. . .	. . .	432,343.23
Sales of gold and silver	. . .	. . .	420,457.23
Confectioners'	. . .	. . .	. . .
Dealers'	. . .	. . .	. . .
Dealers', in liquors, on sales of other merchandise	. . .	. . .	. . .
Manufacturers'	. . .	. . .	. . .
Plumbers' and gas-fitters'	. . .	. . .	. . .
Total	64,003.87	141,231.58	4,062,243.54

Occupations and Transactions.	For Fiscal Years ending June 30—		
	1866.	1867.	1868.
	$	$	$
Apothecaries'	. . .	. . .	1,489.79
Auction	503,251.35	240,248.63	186,727.50
Butchers'	. . .	203.56	5,796.71
Brokers'—			
Cattle	. . .	67,674.23	110,858.96
Commercial	870,080.00	415,169.97	286,438.46
Sales of stocks, bonds, etc.	1,429,829.77		
Sales of foreign exchange	152,417.56	906,599.22	231.33
Sales of gold and silver	1,046,704.23		
Confectioners'	. . .	. . .	67.76
Dealers'	. . .	2,369,464.70	4,002,655.99
Dealers', in liquors, on sales of other merchandise	. . .	. . .	. . .
Manufacturers'	. . .	. . .	. . .
Plumbers' and gas-fitters'	. . .	. . .	1,642.54
Total	4,002,282.91	3,999,360.31	4,595,909.04

Receipts from Sales *(continued)*.

Occupations and Transactions.	For Fiscal Years ending June 30—		
	1869.	1870.	1871.
	$	$	$
Apothecaries'	1,940.16	4,094.46	812.52
Auction	175,078.52	160,884.43	49,421.83
Butchers'	10,822.60	11,200.62	2,649.76
Brokers'—			
Cattle	120,718.20	131,803.76	49,709.96
Commercial	301,579.03	339,784.16	123,430.59
Sales of stocks, bonds, etc.			
Sales of foreign exchange	. . .	. . .	. . .
Sales of gold and silver			
Confectioners'	2,366.39	2,196.70	329.48
Dealers'	4,081,696.19	4,023,100.05	1,264,566.19
Dealers', in liquors, on sales of other merchandise	9,055.51	299,575.97	87,438.09
Manufacturers'	3,501,962.66	3,863,113.05	2,070,910.18
Plumbers' and gas-fitters'	1,619.77	1,641.77	373.48
Total	8,206,839.03	8,837,394.97	3,649,642.08

ment by a specific lump sum, instead of upon the net earnings, rental paid, or gross sales. This plan, which has been discarded long since by the majority of European countries, has the evident advantage of simplicity and ease of assessment; but in this simplicity there inheres so much that is arbitrary and unjust, that it is doubtful if there is to be found a tax more unfair to mercantile classes than this.[1] In evidence of this statement, it is only necessary to indicate the incidence of such a tax; for, instead of its being a duty proportional to the amount of sales, and thus susceptible of diffusion

[1] Cf. "Taxation in American States and Cities," p. 206, in which Dr. Ely indicts the tax as "a most vicious one from every point of view."

among the consumers, it is in effect a fixed and arbitrary requisition, imposed as a condition precedent to the privilege of doing business. By such a plan the large producer or merchant pays the same duty as his neighbor selling one-half or one-third the amount of goods, and is thus able to distribute the amount over a larger surface, or to assume the tax altogether, and crush out the less fortunate competitor.[1] Such at least is the tendency of a tax assessed by such methods. That its injustice was not a source of complaint at this time is not due to the principles of assessment employed, but rather to the fact that the rates of duty were comparatively low, and an inconsiderable burden upon even the smallest dealer. In fact, it was one of the most popular of the taxes, judging from the evidence of the Special Commissioner of Revenue, who, writing in 1867, said: "It should be clearly borne in mind that all our revenue experience during the last five years has conclusively shown, that, with the exception of stamps, there is no class of taxes which are paid so readily and promptly; are collected with so little trouble and expense by the government officials, and impede to so small a degree the industry and development of the country as the so-called license taxes."[2] In a like manner Mr. Morrill viewed them as the least offensive of the excise taxes, the only possible exception to them being the "novelty" of imposing a tax upon any lawful occupation; but even this objection vanished, he said, when it is considered that a license is not so much a permit for carrying on

[1] See "Shifting and Incidence of Taxation," p. 168, by Professor E. R. A. Seligman.

[2] Report of Special Commissioner of Revenue, 1867, p. 42.

business, as it is a recognition of the trade and a designation of the premises in which the industry is to be transacted.[1]

With such indorsement, it is not surprising that the system was very diffuse. At the time of its greatest extension all classes of corporations and persons carrying on trade were taxed, while persons conducting different pursuits in the same place, or the same pursuit in different places, were taxed upon each establishment separately.

By the provisions of the law any person or corporation carrying on business was required to register, and to furnish to the assessor any information requisite to the affixing of the tax. In the majority of cases this was a simple matter, as the rate was uniform upon all persons in that trade. The prevailing rate of duty was $10, imposed upon professional men, retail dealers generally, and brokers. Banks paid a license of $100; distillers, maltsters, brokers, and wholesale dealers, of $50; hotels from $5 to $200, according to the rental value of the premises occupied.[2] Later amendments aimed to render the duties roughly proportional, although no attempt was made to levy an exact percentage tax on sales, as was frequently proposed in Congress. Thus banks, in addition to a stamp-tax of $100, were assessed $2.00 on each $1,000 of their capital stock in excess of $50,000. Wholesale dealers, pawnbrokers, peddlers, and others also paid in proportion to annual sales.

From an administrative point of view, and in the

[1] *Congressional Globe*, 1862, p. 1195.

[2] Act of July 1, 1864.

light of results attained, the tax had much to commend it, for none was easier of assessment, and in none was evasion more difficult. Moreover, the revenues were considerable and rapidly increased in amount, the bulk of the receipts being returned from bankers, brokers, wholesale dealers, hotels, liquor dealers, and manufacturers. In 1866 the total receipts from all classes were $18,015,743, of which amount $12,596,059 was collected from these six sources, while the thousands of retail dealers, professional men, peddlers, agents, etc., returned less than one-half that amount.

The total receipts from this source during the years from 1863 to 1870 were as follows: —

1863	$ 6,824,178	**1867**	$ 18,103,615
1864	7,145,388	**1868**	15,966,313
1865	12,598,681	**1869**	16,420,710
1866	18,015,743	**1870**	16,544,043

The marked advance in receipts in 1865 and 1866 was due to the increased number of persons subject to the charge under the Act of 1864, to the advance of the duty upon several kinds of business, and the reassessment of wholesale dealers. Moreover, by 1866 the tax had been extended to the greater portion of the South. At the termination of the war, it was proposed that the license taxes be continued, and extended as much as possible, in order that the general excise upon manufacturers and products might be more readily relinquished. This suggestion was followed in some instances; and the system was retained up to 1871, when the last assessment was made.

As indicative of the relative productivity of different

occupations, the following table compiled for the fiscal years 1865, 1866, and 1867 is of interest.

Receipts from Special Taxes for Fiscal Years: —

	1865.	1866.	1867.
Apothecaries	$32,872.43	$43,712.86	$55,447.42
Assayers	10,883.08	12,889.19	12,211.24
Auctioneers	80,545.18	89,724.42	98,084.86
Bankers	846,686.58	1,262,649.05	1,433,715.79
Brewers	77,747.00	105,412.23	238,155.14
Brokers of various sorts	581,450.28	673,260.30	598,854.94
Claim agents	56,782.29	70,637.39	84,627.49
Dealers, —			
Retail	1,606,778.53	1,949,017.04	2,047,860.77
Wholesale	3,543,104.76	5,428,344.86	3,880,281.13
Retail liquor	2,205,866.38	2,807,225.59	2,966,683.73
Wholesale liquor	400,692.91	801,531.32	982,134.94
Distillers, —			
Coal-oil, etc.	16,024.88	17,350.12	21,809.32
Spirituous liquors	46,661.22	81,295.06	174,445.71
Apples, grapes	13,236.35	20,239.31	57,332.15
Hotels	415,279.05	580,021.56	663,656.32
Insurance agents	21,609.88	104,866.83	148,647.85
Lawyers	190,377.25	264,836.75	357,648.41
Manufacturers	635,115.51	1,043,030.78	1,296,487.27
Peddlers	459,298.60	679,013.63	708,113.28
Physicians and surgeons	302,847.30	425,596.66	549,368.64
Rectifiers	48,781.52	61,300.91	80,470.06

CHAPTER VI.

INDIRECT TAXES UPON CONSUMPTION.

I. DISTILLED SPIRITS.

The well-nigh universal experience of foreign states, the more recent history of our own excise, as well as the demands of social, economic, and fiscal considerations, unite in admitting distilled spirits to be a most proper object for taxation. First imposed in England by Charles II., taxes on spirits have since become one of the most considerable sources of revenue in nearly every civilized State. At the present time nearly all the German States, Russia, France, Great Britain, Italy, Austria, Spain, Belgium, The Netherlands, Turkey, Denmark, and Portugal tax this article in some form or other,[1] while in the United States the internal taxes alone on whiskey produce nearly one-third of the entire revenue from the customs and inland duties.[2]

Saving the tentative efforts of Hamilton, and the later "temporary war taxes" of 1814 and 1815, the distiller had been relieved from the visits of the tax-gatherer in this country from the time of the adoption of the Constitution down to the Civil War, and

[1] Vide "Finanz Archiv, 1887, Die Brantweinsteuer," Dr. J. Wolf, p. 320, in which the author gives the historical development of the tax, as well as the existing systems in various countries.

[2] In 1894 the total receipts from the customs and the excise were $278,929,762, the internal tax on whiskey producing $85,259,252 of this amount.

the industry grew in importance, freed from all restrictions, until the production of whiskey was one of the chief industries of the nation, and the still, like the cider-press of a later day, became an almost necessary appendage to every farm. So universal, in fact, was the consumption of whiskey, that in 1860 it was computed by the census returns that over ninety millions of gallons were produced annually in the United States, of which no more than three millions were for foreign export; while the cost of production was so low, that the ruling price for the five years preceding the war was but twenty-four cents per gallon. It is by no means to be inferred that all of this product was for personal consumption.[1] In the preparation of many patent medicines, it was utilized as the stock or body of the article; while so important was its use in the production of a certain burning fluid that it has been estimated that in 1860 over twenty-five million gallons of alcohol were consumed in this way. The cheapness of the article made its use possible in a variety of domestic industries, while in the preparation of varnishes, imitation wines, perfumery, hair tonics, etc., it was a prime ingredient.

One of the reasons why such commodities as distilled spirits, tobacco, and malt liquors find such favor in the eyes of financiers is what Professor Marshall calls the "inelasticity of their demand." Consumption does not vary with price, it is said, as it does in

[1] In 1865 the Revenue Commission estimated that the amount of spirits required to supply the consumption of the country for drinking purposes was thirty-eight million gallons, while from three to six million gallons were required for industrial purposes.

other commodities; for experience has shown that the demand remains about the same, no matter what the cost of production. In the case of other articles, a substitute usually presents itself, which more or less completely satisfies the want, while not infrequently the increase in the price effectually checks the demand. Not so in the luxuries under discussion, for as yet no substitute has been found for intoxicants or other harmful narcotics.[1] This being assumed as true, the only problem which confronts the financier is an administrative one, — namely, the character and amount of the duty which from a fiscal point of view will prove the most efficient. In seeking an answer to this question, the period now under consideration furnishes one of the most instructive and interesting chapters in all fiscal history.

The Act of 1862, which was in great measure experimental, imposed a low rate upon spirits, it being but twenty cents per gallon, equivalent to nearly one hundred per cent ad valorem. The duty was obviously insufficient. At this time Great Britain was collecting a tax of ten shillings per gallon, from which nearly fifty millions of dollars was annually derived, or twenty per cent of the entire inland revenue of the kingdom, a sum equal to seventy per cent of the revenue of the United States from all sources. So heavy a rate as this, the commissioner felt, could hardly be collected in this country, owing to the wide dispersion of the population, and the

[1] Such is a principle which has frequently been advanced in regard to such articles; but our own experience, as will be shown later, seems to indicate that a considerable modification of the principle must be made.

undeveloped condition of the revenue service. He, however, suggested an increase in the rate to sixty cents per gallon, at which point he thought the revenues would be more productive than at any other.[1] These recommendations were approved by Congress, March 7, 1864, when the rate was increased as suggested by the commissioner. By the provisions of these two Acts, the duty was payable by the owner or agent of the still where the article was produced, after inspection by a government official, who placed upon the cask or package a record of the amount and proof of the contents, together with the date of inspection and the name of the inspector. Any attempt fraudulently to evade payment by the re-use of the package, or by alteration of the stamp, was finable for each offence at five hundred dollars.

Inasmuch as spirits are only marketable after a certain age, a system of credits was inaugurated, by means of which the product might be placed in bonded warehouses, or in bond as it is termed, for a certain period of years, whence it could only be removed on payment of the tax. To insure observance of the law, every distiller was compelled to take out a license, and give bonds, with one or more approved sureties, conditioned upon the faithful conduct of his business. He was further required to enter daily a record of the amount of spirits distilled, as well as the quantity of grain consumed in production, and to render a verified report of the same to the collector at stated intervals.

Scarcely had the new rate become operative, when Congress, disregarding the advice of the commissioner, set itself to increasing the revenues by raising exist-

[1] Report on Finances, 1863, p. 64.

ing rates without providing adequate means for their collection. Duties were doubled and trebled, the tax being increased gradually from $1.50 per gallon, after July 1, 1864, to $2.00 per gallon, after Feb. 1, 1865.[1]

This latter rate was equivalent to an ad valorem tax of nearly one thousand per cent of the original cost of the product; and the results were such as would be anticipated from such an exorbitant duty, and stand as a permanent illustration of the effects of an excessive rate of taxation upon a manufactured commodity, where adequate machinery does not exist for its enforcement. The justification of this increase in the rate was partly sumptuary and social, and partly fiscal. It was maintained that spirits being a harmful luxury, and in no sense essential to comfort or sustenance, no injury would result from the imposition of a heavy tax, even though it did diminish consumption. But the fiscal needs were adequate to account for the increase in rates, for it was expected that large revenues would accrue from this source. As a matter of fact, none of these expectations were verified; while the alterations continually being made in the rate by legislation, together with the apprehension that the stock on hand would be subjected to the $2.00 rate, exercised an unfavorable influence upon production.

It is further a matter of regret that the full increase of the duty was not made immediately operative. Owing, however, to a desire to avoid all appearance of retroactive legislation, Congress saw fit to exempt bonded stock from the increase in rates, which opened

[1] Act of June 30, 1864. By amendatory Act of Dec. 22, 1864, the $2.00 rate went into effect Jan. 1, 1865.

the door for an immense amount of speculation, and enabled producers to accumulate stock at the old rate of taxation sufficient to supply the market for months ahead. In this way the law was practically evaded, the Treasury was in no sense benefited, while the consumer paid the higher tax in the form of enhanced profits to the speculator, when he chose to place the supply upon the market. So general was this speculative spirit, and to such an extent had production been stimulated in order to anticipate the increased tax, that on the 1st of July, 1864, when the rate was advanced from sixty cents to a dollar and a half a gallon, there was estimated to have been produced and stored at least forty million gallons of spirits, a quantity sufficient to supply the wants of the country for at least a year in advance.[1] Upon this stock a duty of twenty and sixty cents per gallon had been paid, which yielded upwards of $24,000,000, instead of $60,000,000, which would have been produced had the rate been made immediately operative. The same inexplicable legislation in regard to tobacco caused corresponding losses to the revenue from that source.

We conceive that the policy to be pursued in the taxation of luxuries, especially where the sumptuary element is present, to be to assess the article at the highest rate the commodity will bear, without encouraging evasion and loss to the revenue through illicit distillation or production. In order the better to illustrate this principle, it may be well to trace the results of this most anomalous series of enactments from 1864 to the changes made in the rates shortly subsequent to the close of the war.

[1] Report of Revenue Commission, p. 6.

1. *The Tax Rates and the Revenue.*

Contrary to all expectations and all known rules of calculation, the advance of the rate to $1.50 and $2.00 per gallon produced no corresponding increase in the revenues. During the ten months of the fiscal year 1863, the tax was uniformly twenty cents per gallon, and the revenues therefrom $3,229,990, collected from 16,149,954 gallons of spirits. Accepting as accurate the census figures on the production of the country, which placed the annual output in 1860 at upwards of 90,000,000 of gallons, this was rather an unsatisfactory showing. There is reason for believing this an over-estimate, however; for even in 1864, when the desire to anticipate the tax gave a decided stimulus to production, the number of gallons upon which the tax was paid was but 85,295,391. The rate for this latter fiscal year was sixty cents per gallon, although during the earlier months the old rate reigned, and the receipts therefrom rose to $28,431,797. Inasmuch as the Commissioner of Internal Revenue estimated that one-half this amount was the result of forced production for the purpose of anticipating the increased tax, which went into effect July 1, 1864, we may assume that the normal annual production approximated from forty to forty-five million gallons, which is substantially the estimate later made by the Special Commissioner of Revenue, Mr. Wells.

With the imposition of the increased rate after July 1, 1864, production was temporarily suspended. Such a result was to be expected from the accumulations of the article on hand. But, despite this fact, the commissioner

confidently expected to realize forty million dollars from spirits during the last seven months of the fiscal year 1865.[1] How wide of the truth were his estimates will be seen from the fact that the actual receipts for the entire year were but $15,995,701, or twenty-four million less than had been expected for half that time. For 1866, he anticipated eighty million dollars, to secure which result the sole thing needful "to render it almost certain is a few additional means for securing the collection of the tax on the whole product of the distilleries, and thus protecting the revenue against illicit distillation, to which high duties afford so strong a temptation."[2] His sanguine expectations were again found to be illusory; for despite the improvement of the service during the eighteen months of the operation of the new rate, but little over twenty-nine millions were turned into the Treasury in 1866; while for the fiscal year 1867 they fell considerably below this amount.

This extraordinary rate remained in force but one year more, when in response to the recommendation of the Revenue Commissioner (and upon no subject are his investigations more exhaustive or the reasoning which advocated the reduction more conclusive), as well as the promptings of justice and expediency, the duty was reduced to fifty cents per gallon, at which rate it remained until 1872. In addition to this specific gallon tax, there was added a so-called capacity tax of so much per barrel, and a special duty for the reimbursement of the government for gaugers' fees and storekeepers' sala-

[1] Report on Finances, 1864, p. 59. [2] *Ibid.*

ries which increased the per gallon rate to about sixty-seven cents.[1]

The rates of duty, annual production of spirits, and the receipts therefrom, for the six years of the operation of these rates, were as follows: —

YEAR.	DUTY.	PRODUCTION.	RECEIPTS.
1863	$0.20	$16,149,954	$ 3,229,990
1864	0.20 and $0.60	85,295,391	28,431,797
1865	1.50 and 2.00	16,936,778	15,995,701
1866	2.00	14,599,289	29,198,578
1867	"	14,148,132	28,296,264
1868	"	6,709,546	13,419,092

The results of this change were remarkable. Illicit distillation on a large scale practically ceased with the imposition of the new rate, while those industries and arts in which spirits formed a prominent ingredient experienced an immediate revival. At the same time the receipts from this source increased with equal rapidity. They rose like magic from thirteen and a half millions in 1868, to over forty-five millions in 1869, while the number of gallons reported for taxation increased in an equal degree. Again, during the fiscal year 1870, there was a further increase of $10,534,864 in the revenue, or from $45,000,000 to $55,606,094.

[1] Act of July 20, 1868. This Act made the tax 50 cents per gallon, to be paid by stamps; but there was imposed on the distiller by the same Act, an additional tax on his product of $4 per barrel of 40 proof-gallons, which made the tax really 10 cents per gallon additional, or 60 cents per gallon. There was also a tax on the grain-mashing capacity of the distillery, and a further requirement of reimbursement by the distiller of the sums paid by the government for gaugers' fees and storekeepers' salaries, altogether amounting to about 7 cents per gallon of the aggregate product of spirits, thus making the whole tax charged upon the distiller about 67 cents.

During the four years (1869–1872) of the operation of the reduced rate, the tax was assessed and collected upon an average production of 67,175,822 gallons, which yielded an average revenue to the Treasury of $34,000,000, indicating an average annual per capita consumption of 1.65 gallons.

The results of this experience are sufficiently convincing to establish the claims of a new canon of taxation, to the effect that a tax to be efficient should be moderate in amount and well assessed, rather than so excessive as to encourage fraud and stimulate to evasion.

2. *Fraud and Evasion.*

One of the most deplorable phenomena which characterized the period was the demoralization which the attempt to collect these excessive taxes wrought in the public service. The moral grain of government officials is not, as a rule, much above that of the general public from which it has its source, and especially true is this where public preferment is a reward for partisan activity rather than of meritorious public service.

During the two years immediately following the imposition of the tax in 1862, while the rate was moderate and the temptation to fraud but slight, the loss from evasion was comparatively unimportant; but with the opening of the fiscal year 1864, and the growing appreciation of the immensity of the struggle, and the probable fiscal necessities for its suppression, it became generally recognized that an increase of the tax-rate was probable. The prospect of legislative action in this direction at once stimulated production, in order that the tax might be anticipated; and as we have seen, the capacity of the

stills was pressed to the utmost, while great numbers of new establishments sprang up in all parts of the country.[1] As a result, production was abnormally increased, and the amount entered into bond rose from sixteen million gallons in 1863 to eighty-five millions in the following year. Of this amount seventy million gallons was bonded before the increase provided by the law of March 7, 1864, went into effect, while from this time on to June 30, when the duty was further increased to $1.50 per gallon, production continued at an unparalleled rate.

For reasons only apparent to Congress, these increases in rates were not made retroactive, or operative upon existing stock in bond; but when the spirits came to be withdrawn for consumption by the producer, the duty then prevailing was added by him to the price, and the tax, which had never been paid, was exacted from the consumer. The profits accruing to private persons from this source were enormous, and have been estimated at more than two hundred million dollars.

The effect of this excessive stimulation of the industry was to check further production until existing stock should be consumed; and in the month succeeding the imposition of the new rate, we find the amount returned for taxation to have fallen to 697,099 gallons. Moreover, as soon as it became apparent that the rate was likely to be permanent, producers at once began to cast about for means of evading its payment. Such were not hard to find; and, during the next few years fraud

[1] According to the census, the number of distilleries in 1860 was 1,138, which had increased in number, by 1864, to 2,415, while in 1868 the number reported was 4,721.

and evasion became so prevalent in the production and and sale of liquors, that in 1868 a House committee on retrenchment asserted that hardly an honest man was to be found in the business. During this period very little effective effort was made to enforce the law, nor was it susceptible of enforcement. Evidence was produced before the Revenue Commission to show that large quantities of spirits, in amounts ranging from 20,000 to 80,000 gallons, were transported to market without the payment of the duty, and without protest on the part of the officials, or knowledge that the proceeding was conducted in anything but a perfectly regular manner. Distillers, and their own workmen in some instances, were appointed their own inspectors; and one case came to the knowledge of the Commission where the official in charge of a still was ignorant of the use of the hydrometer. The looseness with which the law was administered during these years is almost inconceivable. Not the least of the causes for this were the defective provisions regarding official oversight, and lack of uniformity in inspection and practice in the matter of marking and branding the package. Officials were too frequently inefficient, and often, if not fraudulently in connivance with producers, ignorantly so. Hundreds of illicit stills existed all over the country, especially in the western central States, where one of the revenue agents estimated that four-fifths of the spirits produced did not pay the tax; while in the case of the larger stills, the inspectors were not infrequently non-residents, who gave but casual attention to their duties, and often left the inspection and branding of packages to the distillers themselves, upon whom they

were dependent for their fees. Illicit stills also existed in great numbers in the large cities, where a still could be operated in a small space — a garret or cellar or anywhere — and whose daily capacity was from twenty to fifty gallons.[1]

The provisions of the law for listing, branding, and inspection were further indefinite and inadequate; while inspectors and assessors were not infrequently appointed at the dictation of distillers. The means of evasion were, in fact, so numerous and so successful, that Congress exhausted its ingenuity in attempting to protect the revenue, but all to no purpose. "For three years," says a Congressional committee upon this subject, "efforts have been made to collect the tax (i.e., $2.00 per gallon); each year the frauds have increased, but not the revenue. The operators throughout have possessed more ability than Congress; more shrewdness than the revenue department. No sooner would a regulation of the department or an Act of Congress be passed, than means would be devised to evade it. The human intellect seems far more inventive, and skill far more effective, when to incentive to gain is added the chance of providing security against detection and punishment."

In an even more graphic way Mr. Wells describes the

[1] To correct these defects, which were traceable in large measure to defective legislation, and the failure to provide for adequate inspection, the Revenue Commission in 1865 proposed an Act for the consideration of Congress to correct the same; and it is of interest to note that the measure as reported was in many respects identical with that passed in the infancy of the Republic (March 3, 1791), which was draughted by Alexander Hamilton — a singular commentary on his perspicuity and almost intuitive knowledge of the problems to be confronted in the taxation of spirits.

phenomena which characterized the attempt to collect the excessive tax on spirits. "Under the strong temptations of large and almost certain gains," he says, "men rushed into schemes for defrauding the revenue with the zeal of enthusiasts for new gold-fields; and the ingenuity of the American people has never had more striking illustrations than was offered in their devices for evading the tax, and providing for security against detection and punishment in so doing. The parties concerned in these transactions also showed throughout more ability than Congress and more shrewdness than the revenue department of the national treasury."[1]

So high was the rate of taxation that fear of detection failed to deter men from attempting to evade it, while the profits of success were so large that the connivance of officials was secured by admitting them to a participation in the gains. How universal was this evasion may be seen by a contemplation of the statistics of receipts during these years. The normal annual consumption of whiskey was upwards of forty millions of gallons; but, for the three years immediately subsequent to the imposition of the increased duty in 1864, the amount returned for taxation did not exceed one-third that amount. In 1867 it fell to fourteen millions, and finally sank, without apparent reason, in the following year to less than one-half that quantity.[2] The revenue manifested a like tendency to decline, despite the most strenuous efforts put forth to protect the collection. In 1866 the receipts were but little more than

[1] Special letter of D. A. Wells to Secretary Carlisle, July 8, 1893, p. 6.

[2] The exact amount on which the tax was paid was 6,709,546.

they had been under the earlier rate of twenty cents, while in 1868 they dwindled to the comparatively insignificant sum of $13,419,092. The consequent loss in revenue was enormous, and during these years could not have been less than fifty millions of dollars annually; for but three gallons paid the tax where five escaped, and the average rate of taxation thereon was but seventy cents.[1]

One of the necessary results of this state of affairs was to reduce the plane of competition to that of the most unprincipled dealers in the market. Despite the enactment of Congress providing that the sale of whiskey for less than the amount of the tax was to be considered *prima facie* evidence of fraud, the article continued to be offered in the market in unlimited quantities at less than two dollars per gallon,[2] and the government was forced to acknowledge itself unable to protect those who honestly paid the tax.

The records of the attempt of the government to enforce the collection of excessive rates of taxation form one of the most interesting chapters in the financial history of the country, and the teachings therefrom cannot be better summarized than in the words of Mr. David A. Wells. Says that authority: "Whenever a government imposes a tax on any product of industry so high as to sufficiently indemnify and reward an illicit or illegal production of the same, then such

[1] The loss from evasion and fraud has often been placed at a much higher figure. By the *Commercial and Financial Chronicle* it was estimated that nine-tenths of what was paid by the public did not reach the treasury. — Issue of Dec. 3, 1870.

[2] *Commercial and Financial Chronicle*, issue of May 11, 1867, quotes current price of distilled spirits as $1.35.

product will be illicitly or illegally manufactured; and when that point is reached, the losses and penalties consequent upon detection and conviction — no matter how great may be the one or how severe the other — will be counted in by the offenders as a part of the necessary expenses of their business; and the business, if forcibly suppressed in one locality, will inevitably be renewed and continued in some other. It is, therefore, matter of the first importance for every government, in framing laws for the assessment and collection of taxes, to endeavor to determine, not only for fiscal, but for moral purposes, when the maximum revenue point in the case of each tax is reached, and to recognize that, in going beyond that point, the government 'overreaches' or cheats itself.

"Obviously, those who in the past have shaped the policy of the United States in respect to the taxation of distilled spirits for the purpose of revenue have, for the most part, never studied this aspect of the the case, or cared to encourage any one to do so; but on the contrary, as has been somewhat humorously expressed, 'they have held out to the citizen, on the one hand, a temptation to violate the law too great for human nature, as ordinarily constituted, to resist; and in the other, writs for personal arrest and seizure of property, and thus equipped, have announced themselves ready for business."[1]

3. *Speculation.*

In this connection we can but speak in brief of the speculation which the excise engendered, and which was

[1] Special letter to Hon. J. G. Carlisle on "Internal Revenue Tax on Distilled Spirits, Malt Liquors, and Tobacco," July 8, 1893, p. 6.

so universal in all branches of business. Officials in all circles were infected by it, and but few escaped the charge of having trafficked in the country's necessities. To accuse the framers of the measures, however, with the intent of purposely promoting private ends, would be to cast a reflection upon the characters of some of the noblest figures of the period — upon men whose aim was single to their country's good. But had the legislation of the period been devised for the purpose of encouraging speculation, it could hardly have been more productive of it; for rates were constantly liable to change in conformity with the demands for revenue, and prices were in such a state of flux that skilful manipulators of the market were able to anticipate the action of Congress, and to realize upon the increase of prices which followed every advancement of rates. The rapid upward rush of gold in the summer of 1864, together with the passage of the revenue act of that year, doubling rates upon nearly all articles, and increasing those upon tobacco and distilled spirits from six hundred to one thousand per cent of the original cost, quickened this spirit; for, unwisely, the new rates upon the latter articles were not made operative upon existing stock, and speculators on every hand began to forestall the market, so that neither the government nor the consumer was benefited by the change. To such an extent was this spirit of speculation carried, that, by the close of the fiscal year 1864, there had been made and stored in anticipation of this advance at least forty millions of gallons of whiskey, an amount sufficient to satisfy the demands of the trade for twelve months at least; while it was computed that in New

York alone there had been accumulated from seventy to eighty millions of cigars.[1]

In other commodities than whiskey and tobacco speculation was quite as active, and the excise was in large measure responsible for it. As the war wore on, and its magnitude became more apparent, this spirit developed into a mania. Everybody was virtually betting upon the action of Congress; and it does not require wide knowledge of men or of history to convince one that the influence of this spirit manifested itself in legislative halls, urging to a still further increase of taxes for the furtherance of private ends. Certain it is, that, in the case of tobacco and distilled spirits, private interests were enhanced by the increase of the rates more than were the revenues, while for years thereafter influences were operative which enabled dishonest rings to connive with officials in such a way as to deprive the government of a large part of this important source of the revenue.

Such is the experience of the country down to the close of the decade introduced by the Civil War. The later history of these taxes, while in many respects but a continuation and repetition of what has preceded, can be treated more logically in a later paragraph, inasmuch as the year 1870 marks a change, not only in the method of administration, but also in the beginning of the narrow, more restricted system of internal taxation which has continued to the present day, and in which the taxes upon distilled spirits and tobacco form the central figures.

[1] Estimated by the Revenue Commission. House Ex. Doc. No. 34, Thirty-ninth Congress, p. 6.

II. FERMENTED LIQUORS.

By the measure of July 1, 1862, the duty imposed upon fermented and malt liquors, such as beer, ale, porter, etc., was $1.00 per barrel of 31 gallons. This act remained in operation but six months, when the rate was reduced to sixty cents per barrel,[1] with the provision added that the act should expire by limitation April 1, 1864. Subsequent to the latter date the original duty of $1.00 was revived, and has been in operation ever since. In recent years (since the amendatory law of July 20, 1868) the tax has been collected by means of stamps, one of which, "denoting the amount of the tax," must be affixed over the spigot hole or tap (of which there shall be but one), in such a way that the stamp will be destroyed upon the withdrawal of the liquor from the barrel.

The tax of $1.00 per barrel is equivalent to 3.22 cents per gallon, or an ad valorem rate of twenty per cent. One barrel of 31 gallons equals 248 pints or 496 half-pints, and the present tax is therefore equivalent to one-fifth of a cent per half-pint or per glass, as usually sold at retail.

The records of the early administration of this tax present the same phenomena which characterized other branches of the revenue. The tax was but poorly collected, and evasion was wide-spread. An improvement was early manifest in this latter respect, however, for the number of barrels returned for taxation increased with considerable regularity, irrespective of the rate of duty. Thus, while the number of barrels upon which

[1] Act of March 3, 1863.

the tax was paid was but 2,006,625 in 1863, in the year following it rose to 3,141,381, while two years later over 5,000,000 barrels were reported. But, despite the growing observance of the law, a large portion of the product still escaped the vigilance of the assessor; and in 1865 the Revenue Commission, after a most careful investigation of this portion of the revenue service, and after consultation with nearly every large producer in the country, came to the conclusion that the annual product of the country was upwards of 6,000,000 barrels, or considerably more than had been returned for taxation in that year. The loss to the revenue was estimated at $2,400,000, due in large measure, thought the Revenue Commission, to the faulty methods of administration which then prevailed.[1]

These defects were in large measure corrected by the use of soluble stamps as a means of collection, which could not be re-used! With this modification in the method of assessment, the principal avenues of escape were closed; and the annual returns immediately rose by nearly forty million gallons, while the receipts for the first year thereafter were increased by three-quarters of a million dollars. Since that time the revenues have steadily risen, in recent years at a most phenomenal rate. In fact, this increase in the consumption of malt liquors has been more rapid than the increase in population. In 1863 the annual consumption of malt liquors of all kinds was sixty million gallons. Two years later the product had nearly doubled, and amounted to 3.2 gallons per capita. By 1870 the annual consumption had risen to 5.2 gallons per capita, and during the decade follow-

[1] House Ex. Doc. No 34, Thirty-ninth Congress, p. 20.

ing, it again increased more than one hundred per cent. Since that time the increase in production has more than kept pace with the growth in population, until to-day the consumption approximates sixteen gallons per person, and the total annual output of the country is one thousand million gallons.

The receipts have increased in like proportion until malt liquors of various kinds yield an annual revenue of over thirty million dollars.[1]

III. TOBACCO.

The same lamentable errors which characterized the taxation of distilled spirits distinguished the early efforts of Congress to derive revenues from tobacco. Like the former commodity, tobacco is a staple article, the consumption of which does not vary much from year to year, and is little affected by the variations of price. The equation of demand and supply is not a parabola, but a straight line. Knowing, then, the annual consumption and the rate of taxation, it is a comparatively easy matter for the financier to determine with tolerable exactitude the probable revenue to be expected therefrom. Such, at least, are the teachings of economic theory, and in this instance the teachings of experience and of the schools proximately coincide.

At the present time tobacco forms one of the chief sources of revenue in nearly every civilized State; in some, as in France, Italy, and Austria, through govern-

[1] In 1892 the receipts amounted to $30,037,452; in 1893 to $32,548,983; and in 1894, even under the unprecedented commercial depression, they amounted to $31,414,788.

mental manufacture and sale, while in others as a basis of taxation.

Our own experience is limited to the three decades subsequent to the general excise measure of 1862. This Act, so comprehensive in its enactments, did not neglect tobacco. By it all manufactured chewing tobacco was rendered dutiable at the rate of ten cents per pound on grades valued at less than thirty cents per pound, while on better grades a uniform rate of fifteen cents per pound was levied. Snuff was rated at twenty cents per pound, and smoking tobacco at from two to five cents per pound. Upon cigars a rough attempt at ad valorem rates was attempted by the following schedule: —

	VALUE.		TAX-RATE.	
If valued at not more than	$ 5.00	per 1000 at	$1.50	per 1000.
" " "	10.00	"	2.00	"
" " "	20.00	"	2.50	"
If valued at over	20.00	"	3.50	"

These charges were too low in the opinion of the commissioner, as compared with what other commodities were bearing. At this time unmanufactured tobacco was taxed at the rate of seventy-seven cents per pound in England, while the manufactured article paid $2.33 per pound. From these taxes Great Britain secured an annual revenue of upwards of thirty millions of dollars; while in the United States, where the consumption was much greater, the receipts for 1863 were but three millions.

This meagre productivity was due to two causes: (1) the newness of the law and the inexperience of the administration; and (2) the inadequacy of the rate

imposed. To the mind of the commissioner a remedy for the former evil was to be found in a change of the method of assessment, so that the tax would be collected upon the raw leaf, as was the custom in England; while a simple nostrum for the latter difficulty lay in raising the rates.[1]

To Congress nothing seemed more axiomatic than that "two and two make four," even in the arithmetic of taxation; and forthwith the same mistaken legislation followed which we have seen to have been so fallacious in the case of distilled spirits. Chewing and smoking tobacco were still rated differently, the duty on the former being increased to thirty-five cents per pound, while the latter paid fifteen and twenty-five cents, according to description; snuff was taxed at thirty-five cents per pound, while cigarettes were added to the list at a rough ad valorem rate. Upon cigars the attempt to take cognizance of the difference in grades was still maintained, and the following exorbitant rates imposed:[2] —

VALUE.		TAX RATE.
Below	$ 5.00 per thousand in value .	$ 3.00 per 1000.
Between	5.00 and $15.00 per 1000 . .	8.00 "
"	15.00 " 30.00 " . . .	15.00 "
"	30.00 " 45.00 " . . .	25.00 "
Over	45.00 in value " . . .	40.00 "

In the administration of the tobacco tax, the early experience is instructive. All methods were more or less tentative. No precedents existed at home; and foreign nations, as a rule, taxed the article in the leaf.

[1] Report on Finances, 1863, pp. 65, 66.
[2] Act of June 30, 1864.

As a result, early legislation was more or less experimental, and the revenues suffered in consequence.

The tax was levied at the place of manufacture, and was a mixture of specific and ad valorem rates. Stamps had not yet come into use in this branch of the service, nor had the practice of branding; so that it was no difficult matter to remove the article from one place to another, where it might be disposed of surreptitiously without payment of the tax. By the amendatory Act of March 3, 1863, however, the practice of the department was in this respect improved; and the inspector was instructed to brand upon the cask or package the weight and quality of the tobacco, as well as his own name and the date of the inspection. By this means it became an easy matter to determine whether the duty had been paid or not, and to detect any attempted evasion. Later modifications placed severe restrictions upon the manufacturers by insisting upon minute reports concerning their methods of business, stock on hand, destination and quality of the product, etc. These returns were made weekly, and in many instances were quite onerous to the producer; for they amounted, in effect, to a labor tax upon the industry. In order to quiet the complaint that the tax rendered large capital necessary to the conduct of the business, the bonded warehouse system was extended to it, so that the duty became payable only on the disposition of the product.[1]

The assessment of the tax upon cigars was fraught with probably the greatest complications. The Act prescribed that the valuation placed upon the article by the assessor should be "the value of the cigars exclusive of

[1] Act of June 30, 1864.

the tax." The rate, as we have seen, was not a proportional, ad valorem one, but a graduated tax assessed according to classes upon the price of the cigars. By reference to these rates, it will be seen that under these provisions no schedule of prices could be devised which would satisfy the law in the majority of cases. Take, for illustration, the case of a thousand cigars selling at twelve dollars. The value is determined by the sale; and the question arises, what is the tax? It must obviously be either three dollars or eight. If the former, then the cigars, exclusive of the tax, are worth nine dollars. But cigars valued at more than five dollars must pay a tax of eight dollars. Then put on the tax of eight dollars, and the value of the cigars is found to be four dollars, and not dutiable in this grade. Neither tax is appropriate to the value — one is too little, the other too great. The same difficulty is found in relation to cigars selling at any price between eight and thirteen dollars, between twenty-two and thirty dollars, etc. The law furnished no rule by which they might be assessed, and the commissioner therefore instructed the officials to adopt the interpretation which imposed the lowest rate.[1]

Another result of this anomalous method of assessment was that it became more profitable for the manufacturer to sell his cigars at eleven, rather than fifteen, dollars per thousand; at twenty-five rather than thirty-one dollars, and at sixty-nine rather than eighty-five. The value as determined by the sale was the determinant of the tax, and the returns of the producer were the only evidence of value. It thus offered a tempta-

[1] Report on Finances, 1864, p. 62.

tion to undervaluation, which was often taken advantage of. Were the duty an ad valorem one, this opportunity would not exist; and the commissioner therefore suggested that the latter mode of assessment be adopted, provided a tax upon the leaf seemed inadvisable.[1]

Congress realized the anomalies of the tax, but chose to follow other avenues for relief. It thereupon placed the cap-sheaf upon the series of blunders by levying a uniform specific rate of ten dollars per thousand upon all cigars, no matter what the quality or value of the same might be, and also increased the rate on tobacco.[2] The uniform rate rendered the tax simple of assessment, which is certainly a desideratum in any duty; but it is liable to the criticism that it placed an undue burden upon the cheaper grades of cigars, while the higher grades were but slightly affected. It also bore with some severity upon the small domestic producer, who was often unable to advance so large a tax. This rate remained in force but one year, and it is of interest to note that the number of cigars returned for taxation during this period was less than in any other year either before or subsequent to its passage.[3]

[1] Report on Finances, 1864, p. 62. [2] Act of March 3, 1865.

[3] The total receipts from cigars, together with the aggregate number returned, and the rate of the tax, from 1863 to 1870, were as follows: —

YEAR.	RATE OF TAX.	NUMBER OF CIGARS.	COLLECTIONS.
1863	$ 1.50 to $ 3.50 per M.	199,288,284	$ 476,589
1864	1.50 to 3.50 "	492,780,700	1,255,424
1865	3.00 to 40.00 "	713,001,099	3,087,421
1866	10.00 "	347,674,259	3,476,236
1867	2.00 to 5.00 "	483,806,456	3,661,984
1868	5.00 "	590,335,052	2,951,675
1869	5.00 "	993,287,429	4,960,952
1870	5.00 "	1,153,352,191	5,718,780

The experience of this period also furnishes an example of the influence of a tax in determining the equation of demand and supply of an article of universal consumption. Thus, in 1866, with the uniform rate of ten dollars per thousand obtaining upon all grades of cigars, only 347,674,259 were returned for taxation; while in 1869, with the rate reduced one-half, the number increased nearly threefold, or to 993,287,429.

Conclusions in regard to the social and economic tendencies of a tax are, from the nature of the phenomena, but tentative, and on the whole unsatisfactory. The coworking of diverse forces precludes exactitude in the tracing of causal relations, and we are compelled to depend more or less upon conjecture. It is not so with the purely fiscal aspect of the study, for here we deal with phenomena whose results and meaning are clearly demonstrable.

In the discussion of the duty upon distilled spirits, we have seen that there exists an intimate relation between the rate of the tax and the extent of fraud and evasion; and it is not, therefore, a matter of surprise that the same results are to be found in the taxation of tobacco.

The returns from manufactured tobacco during the same period were as follows: —

YEAR.	RATE OF TAX.	AVERAGE RATE PER POUND.	QUANTITY IN POUNDS.	COLLECTIONS.
1863	2 to 20 cents	10 cents	23,852,387	$ 2,613,438
1864	5 to 20 "	11 "	64,577,097	7,327,618
1865	5 to 40 "	22 "	37,641,822	8,300,372
1866	15 to 40 "	34 "	37,493,785	13,038,095
1867	15 to 40 "	34 "	47,631,494	16,043,842
1868	15 to 40 "	34 "	46,764,150	15,692,415
1869	16 to 32 "	27 "	64,305,026	17,371,063
1870	16 to 32 "	27 "	90,288,082	24,300,483

The magnitude of the frauds committed under the stimulus of the high rate imposed will never be known; but that it was very general the records of officials and the tone of the press of the day testify. It was currently asserted at the time that scarcely one-half of the annual product of the country was reported for inspection, while competent authorities estimated the loss much higher. Says the Special Commissioner of Revenue, writing in 1866: "The losses which have accrued and are now accruing to the revenue through the failure to collect the tax . . . are of an amount almost to exceed belief — the losses on tobacco alone, in a single section of the country, being reported to the commissioner by a most competent authority as in probable excess of twenty thousand dollars daily."[1] The same official later stated that "the books of some of the largest manufacturers in this country show that their aggregate sales of smoking tobacco for the whole of the last year have not been in excess of the average of sales which, before the imposition of the tax, were effected in a single week."[2]

The failure to collect the tax was due to causes similar to those operative in the case of distilled spirits. They were mainly four in number, namely; (1) a very large percentage of the losses were due to incompetency and complicity of officials, for it was cheaper to secure the co-operation of the inspector by corrupt means than to pay the tax; (2) the use of counterfeit or illegal inspection brands was a prevalent cause of loss, as there existed no uniformity in this regard on the part of the

[1] Report of the Special Commissioner of Revenue, 1866, p. 4.
[2] *Ibid.*, 1868.

different officials; (3) the re-use of packages or casks which had been previously inspected and properly branded further depleted the revenue; as did (4) the substitution of other and better grades of tobacco for those upon which the tax had been already paid. Considerable loss also arose through the fraudulent use of the warehouse system.[1]

So flagrant, in fact, did these frauds at last become that the manufacturers themselves headed a movement for reform, and presented a memorial to Congress indicating lines for legislation, which were embodied in part in a later enactment, and are substantially identical with those in use at the present day. Greater simplicity in rates was needed, as were more efficient methods of collection; and these the measure of July 20, 1868, aimed to secure by reducing the rates, rendering them payable by means of stamps, while the most minute provisions were made for marking, packing, removal, sale, etc.

The effect of these modifications was immediate. Receipts rose from $18,700,000 in 1868, to over $31,000,000 in 1870, and this in the face of a very general reduction of rates. Cigars manifested the greatest increase (95 per cent), from which we are to infer that a larger portion of them had previously escaped taxation.[2] From this time on the receipts from this source steadily increased at a normal rate corresponding to the natural growth of consumption, until, in 1876, tobacco produced somewhat more than one-sixth of the total revenues of the government, or $40,000,000.

[1] Report of Special Commissioner of the Revenue, 1868, pp. 35–38.

[2] *Vide* "Tobacco Tax," *Quarterly Journal of Economics*, January, 1891.

At this time the appearance of the surplus and the clamoring of special interests hostile to any reduction of the customs duties led to measures for the complete abolition of the tobacco tax, or at least for a diminution of the rates. In 1879 Congress in part conceded to the pressure by reducing the rates upon snuff and other manufactured tobacco to sixteen cents per pound, instead of twenty-four, while the duty upon cigars and cigarettes remained unaltered. By 1883, the revenues continuing redundant, the rate upon the former article was further reduced to eight cents per pound, while the duty upon cigars was cut down to three dollars per thousand.

The result of these alterations was gratifying in so far as it indicated the efficiency of existing methods of administration and collection; for while the revenues fell off from forty-seven millions in 1882, to twenty-six millions in 1884, the increase in the taxable product was little more than normal.[1]

From this time down to the present day, constant influence has been brought to bear on Congress, advocating the complete abolition of the tax; and, as a partial concession to these clamors, the rate upon manufactured tobacco has been reduced to six cents per pound, while special license taxes upon retail dealers have been dispensed with altogether.[2]

Just what effect has followed upon this reduction of duties in the price of the article, it is difficult to determine with accuracy. There is reason to believe, how-

[1] For list of collections, as well as rates of taxation and amount returned for taxation, see table, p. 226, as well as Appendix.

[2] Act of Oct. 1, 1890.

ever, that but slight benefits have accrued to the consumer.

IV. THE GENERAL EXCISE UPON MANUFACTURES AND PRODUCTS.

The first efforts of the Revenue Commission, subsequent to the close of the war, were directed towards the relief of trade and industry from the burdens of the complicated system of taxes which obtained upon manufactures and products. It was to the operations of the general excise, thought the Commission, that the inflation of prices, the insecurity of commercial relations, the chaos of speculation and business disaster, as well as the burdensome taxes of the consumer and wage-earner, were in a great part attributable. Not only were the duties so heavy as to cause a marked diminution in the consumption of staple commodities, but so indiscriminately were they levied, with so little regard to the laws of trade, that industry was blighted thereby, while capital was diverted from the natural channels of its activity.

The distinguishing feature of all the fiscal legislation of the time was the wide diffusion of taxes. The one absorbing demand of the Treasury was for revenues, and all other considerations were rendered subordinate to that end. Everything possible was made to contribute to the country's coffers, and in many instances the same article was taxed over and over again before it reached the consumer. Every product of the mill or factory was taxed at each turn of its manufacture, so that not infrequently an article bore a duty imposed twice, thrice, and even four times, before it reached the market. The

system operated like a series of barriers, across which passage could be secured only by the payment of toll, which was re-exacted at every phase of the process of manufacture. This duplication led to an undue enhancement of prices. Moreover, exact calculation in production became impossible, as the tax was liable to alteration at any moment, and the accumulation of a large stock of goods upon which a heavy duty had been paid might prove ruinous to a producer. For this reason production was made to conform as nearly as possible to immediate demand.

At the same time the lack of harmony between the excise and customs duties was a further disturbing element; for, although these taxes were designed to be mutually compensatory (and considerable skill was shown in the arrangement), it was soon discovered that many divergencies existed between them. So numerous, in fact, were they, and due to such irremediable causes, that the efforts of Congress to relieve them were only in part successful.

As a consequence, many industries were seriously affected, in some instances a transfer of capital to other countries being the result. The manufacture of umbrellas and books is an instance in point, in the production of which it was said that foreign cheap labor, coupled with a low excise, speedily enabled the English producer to monopolize our market.[1] In the production of finished railroad and bar iron the results were similar. During the two years previous to 1864 but little railroad iron was imported, the customs duty being well-nigh prohibitive. In the latter year, however, the internal tax

[1] See Report of Revenue Commission, p. 15.

was increased to about nine dollars per ton, giving a protection to the domestic producer of four dollars per ton, which was held by the commissioner to be insufficient to protect the market, a very large portion of the consumption of the year following being imported.[1]

In the case of those industries controlled by strong corporate interests, and able to foresee and take advantage of every fluctuation of the market, this insecurity of business relations offered great opportunities for speculative gains. To the small producer, however, the excise was an unmixed evil. The advancement of the tax demanded additional capital in his business, while in many ways, as in the case of the discounts upon stamps, it discriminated against him.[2] Especially burdensome was this interference with that numerous body of shoemakers, dressmakers, milliners, etc., who produce mainly for immediate and local consumption. In fact, "of all the taxes imposed," said the special Revenue Commission, "none probably have been more effectual in grinding the faces of the poor" than this, "while there are few which have given more annoyance to the revenue

[1] "The present tax on iron consumed in the United States, in the complete forms of railroad and bar iron, will amount, when the coal consumed is taken into the account, to about seven dollars per ton; while other taxes which indirectly fall upon this production will raise the tax to one or two dollars per ton more. During the two fiscal years preceding the last, but little railroad iron was imported; but in the year ending June, 1864, a rapid increase in such importation began, and nearly one hundred and twenty thousand tons, valued at four million eight hundred thousand dollars, were imported. This is equal to about half the entire quantity made in the United States, which is approximately stated at two hundred and eighty thousand tons."—Report on Finances, 1864, p. 65.

[2] See *ante*, p. 123.

officers entrusted with their assessment and collection."[1]

The rates imposed were, moreover, excessive, in some cases being so burdensome as to cause a complete suspension of business. In the case of the woollen industry, which was relieved from the full effect of the excise by compensatory tariff duties, it was estimated that in the years 1864 and 1865, when the duty upon woollens was six per cent, the revenues from this business in the State of Massachusetts were equal to nearly twenty per cent of the entire capital invested in the industry; while the taxes extracted from the manufacture of boots and shoes in that State during the same year were equal to thirty per cent of the capital employed therein.[2] Such are but isolated examples indicative of the general disturbance induced by the excise; for it was a period preeminently of flux, in which all forms of industry were endeavoring to adjust themselves to changed conditions of production.

The method of levying the excise was a mixed one, partly specific, partly ad valorem, a distinction rendered necessary from the nature of the objects taxed, as well as by the desire to harmonize these duties with those of the tariff, which were modified at the same time in order to compensate the domestic producer for the burdens imposed upon him. The Committee of Ways and Means had aimed to devise a system as diffuse as possible, on the theory that equality in taxation is universal taxation, a principle most strongly insisted upon in our States. Only raw materials were exempted; and even

[1] House Ex. Doc. No. 34, Thirty-ninth Congress, p. 39.

[2] Report of Special Commissioner of Revenue, 1867, p. 28.

here the exemption was in many cases only an apparent one, for the articles were frequently taxed in an indirect way.

By the early law of July 1, 1862, specific duties were imposed upon mineral coals, oils of all kinds, gas, paints and colors, coffee and spices, cotton, sugar, snuff, railroad and other iron; while upon nearly all other articles, the product of the mill or factory, a general ad valorem rate of three per cent was imposed.

Careful provision was made for the assessment and collection of these taxes. Every manufacturer was required to furnish the assessor a verified statement of the nature of his business, and to make monthly returns of the products and sales in such form as the commissioner prescribed. Taxes were payable monthly, and were declared to be a lien upon his real and personal property; while the collector could enter, take possession, and sell any goods and products to satisfy the tax.

From the date of this Act down to the close of the war, alterations in the laws were frequent. In 1864 the ad valorem rate was increased to five per cent on the majority of articles previously dutiable at three per cent, while many additional articles were declared taxable. Again, in 1865, these rates were advanced twenty per cent, or from five to six per cent upon all enumerated articles, while the specific duties were increased in a like manner.

The following is a condensed statement of the total collections from specific sources of manufactures and products for the years extending from 1863 to 1868 inclusive: —

Boots and shoes	$14,687,824
Bullion	1,632,796
Candles	1,549,928
Clocks, clock-movements, etc.	457,270
Cloth and other fabrics of cotton	38,606,287
Cloth and other fabrics of wool	29,922,434
Clothing, not including boots and shoes	25,422,745
Coal	2,966,961
Confectionery	3,541,773
Cotton, raw	68,072,389
Gunpowder	1,045,395
India rubber	2,169,077
Iron and steel and their manufactures	35,306,728
Leather of all descriptions	14,350,793
Oil distilled from coal and crude petroleum	20,456,552
Paper, including pasteboard, binders' board, etc.	4,336,177
Petroleum, crude	2,415,697
Pianofortes and other musical instruments	1,452,023
Pins	161,426
Salt	1,462,246
Wood-screws	687,296
Silk	1,211,577
Soap	3,971,253
Steam-engines	3,179,781
Sugar, brown and refined	11,818,343
Thread and twine	2,014,243
Turpentine, spirits of	1,097,247

It has been estimated that after the amendatory Act of March 7, 1865, the government levied and collected from eight to fifteen per cent upon the cost of nearly all manufactured products, while in some instances as high as twenty per cent was collected. In the case of books, pamphlets, etc., it has been computed that the reader paid from twelve to fourteen distinct taxes, including the license tax. Upon all cotton goods the accumulated duty ranged from nine to fourteen per cent, while in the case of sugar the rates were about equal to the entire labor cost of its production.

A. *The Excise and Prices.*

This continued duplication of duties contributed greatly to the rise in prices which characterized the period, as every increment of cost due to taxation was at once shifted to the price of the commodity, often with an additional profit upon the capital advanced by the payer of the tax. Moreover, every jobber, broker, retailer, and middleman contributed an additional license tax for the privilege of carrying on his business, which eventually was extracted from the pocket of the consumer. It is this cumulative tendency of all indirect taxes which renders them so objectionable.

A still further disturbing element in commercial circles was the wide-spread spirit of speculation which prevailed, a spirit largely induced by the excise. Manufacturers and dealers often took advantage of the general ignorance of the market, and, by anticipating the action of Congress, reaped large profits by the accumulation of goods upon which a low rate of duty had been paid. Precise calculations in trade and industry were also rendered impossible by the constant tinkerings with the duties, for it was impossible to tell from month to month just what the tax upon any particular commodity would be. That this very uncertainty was not infrequently a source of profit to the manufacturers is proven by the fact that they often urged an increase in the rate upon those articles which they produced.

It is recognized that the study of prices is most intricate, and any conclusions indicative of causal relations is little more than conjectural. Especially true is this of the period now under consideration, for the ele-

ments which enter in are both numerous and conflicting. The increase in the tariff rates doubtless gave a stimulus to industry, and inaugurated an era of good times accompanied by rising prices; while little less influential was the unusual demand by the government for certain articles of war consumption. Either of these forces, independently of others, would have tended to raise prices; and to them must be added the currency expansion, which is generally supposed to have been mainly responsible for the inflation which characterized the time. Secretary McCulloch advanced this opinion in his report for the year 1865, where he says, "On the 30th of April last . . . the circulation, bank and national, had reached the startling amount of $700,000,000. Nothing beyond this statement is required to exhibit the present inflation, or to explain the causes of the current and advancing prices."[1]

As a matter of fact, the active circulation, at the time the secretary wrote, was but little more than two-thirds what he estimated it to be;[2] and this fact, as well as others, has led some writers to discredit somewhat the importance usually assigned to this cause.[3]

Such an opinion was advanced at the time by Mr. Wells, who asserted, after a careful investigation of the

[1] Report on Finances, 1865, p. 11.

[2] According to the report of the Comptroller of the Currency for that year, the circulation was but $460,814,229, the remaining $250,000,000 included in the secretary's estimate being at that time stored in the U. S. Treasury vaults, or held by the banks as reserves for their deposits or circulation. *Ibid.*, p. 64.

[3] Mr. Gibbons ("U. S. Debt, Finance, and Taxation," p. 226) has denied to the currency any potency in this matter at all, and supports his position by showing that the inflation of prices and currency were not concurrent, but rather the reverse of it.

whole subject, that, while the unhealthy influence of a redundant currency, as well as the scarcity of labor, was to be recognized, still, that "perhaps the most influential" of all the causes to which the inflation of prices was attributable was the "extent of the burden of national taxation;"[1] while the Revenue Commission of 1866, of which he was the chairman, maintained that it was "useless to talk of reducing prices to anything like their former level by a reduction or contraction of the currency."

As materially contributing to this hypothesis, is the burden of taxes sustained at that time. For the fiscal year ending June 30, 1866, the receipts from internal sources alone amounted to $310,906,984, while the total revenues, estimated in currency, withdrawn from the channels of trade, were $561,572,266. Assuming that the population of the country was thirty-five millions, this was equivalent to a per capita tax of $16.04, or something like eighty dollars upon the head of every family; while, on the assumption that the value of the real and personal property had neither increased nor diminished since the census of 1860, the general rate of taxation upon all tangible wealth was something over 3.90 per cent.[2] This statement of the burden of taxation borne is, of itself, sufficient to explain, in part at least, the inflation of prices which characterized the period.

B. *The Excise and the Wage-Earner.*

It has often been asserted that labor bore the cost of the war. Of a certainty, the wage-earner is the greatest

[1] Report of Special Commissioner of Revenue, 1866, p. 26.
[2] *Ibid.*, p. 27.

sufferer upon the inauguration of a heavy excise. The effects of excessive borrowing upon industry and labor, by which capital is diverted from the natural channels of trade and turned into the coffers of the state, has been ably exhibited by Professor Adams.[1] Similar results follow to an even greater degree upon any excessive resort to taxation; for in the latter case the wage-earner suffers not only from the intensified efforts of capital to recoup itself for the inroads of the state, but also from the enhancement of prices which results therefrom.

So much as is true of that principle of political economy which asserts that capital sets the limit to industry, is applicable to the phenomena now under discussion. Increase or diminish this sum, and, other things being equal, you increase or diminish the demand for labor. Unquestionably the excise had this latter effect; for it demanded from active capital invested in productive enterprises a share of its product, which it proceeded to dissipate in unproductive consumption. The fact that the government disbursed with one hand what it assumed with the other, does not alleviate the general effect of the taking; for the capital usually perished with the using, or was so expended that it only returned to productive pursuits through a very circuitous process. Moreover, not infrequently the excise was so excessive as to cause a temporary suspension of certain forms of business, thus further curtailing the capital fund of the country, and consequently the demand for labor.

During the six years' duration of the extraordinary taxes, the total amount of capital exacted from internal

[1] "Public Debts," p. 73.

sources by loans and taxation approximated six thousand million dollars, of which amount over forty-six hundred millions was obtained from the sale of public securities and treasury notes, and twelve hundred millions from currently created wealth through the medium of taxation. Beyond controversy, such an incursion into the capital fund of the country must have diminished the sum devoted to productive pursuits, as well as the demand for labor. But this reduction of the capital fund, as well as the consequent diminished demand for labor, but inadequately represents the full effect of any system of inland taxation which rests upon manufactures and consumable commodities. The capital fund might be constantly undergoing depletion, yet be continually recruited from other sources, and the wage-earner be unaffected thereby. Such is not the case, however, when prices are affected as they were during this period.

As we have seen, prices were rendered very capricious by the duplication which the excise engendered, rising out of all proportion to the amount returned to the state. It is perfectly apparent that, so long as all prices rise in a similar ratio, or at a like rate, no one will suffer,[1] as the equilibrium of exchange is undisturbed. If a disparity occur, however, then those which rise the least or at the slowest rate, are at a relative disadvantage, inasmuch as the depreciated commodity will not command as much in the market as it formerly did. For this reason labor is at a disadvantage in any industrial disturbance, for it is the quite universal testimony

[1] Exception is, of course, to be made of certain classes of vested interests, and deferred payments.

of experience that rising prices find their way into almost every other form of wealth before wages are affected. It makes little difference whether the disturbance arises from a disordered currency, or unusual demands through taxation, upon a rising market wages are among the last and the slowest to move. Anything which causes a general rise in prices, therefore, is detrimental to the wage-earning classes; for real wages are always temporarily lowered thereby, and possibly permanently, if the laborer is willing to sink below his customary standard of living.[1]

An examination of the phenomena which characterize the period renders it possible to demonstrate this influence, which is corroborated by the records of nearly all great industrial disturbances, by statistical proof. At the close of the war, Mr. David A. Wells, as Special Commissioner of Revenue, devoted himself for some time to an investigation of the subject of prices during this period, and the causes to which their variations were attributable; and from the data which he secured from all sections of the Northern States, it appears that the advance in prices during these years, as compared with the year immediately preceding the war (1860) was in groceries and provisions, 90 to 100 per cent; in domestic dry goods, including clothing, 86 per cent; in fuel, 50 to 60 per cent; in house-rent, in the

[1] "According to all experience, whether within modern observation or recorded in history, it may be laid down as an established maxim that labor is the last of the objects of exchange to rise in consequence of dearth or depreciation, and that commonly the price of labor is the last to fall in consequence of increased abundance of commodities or increased value of money." — TOOKE'S *History of Prices*, vol. i., p. 71.

cities, 90 to 100 per cent, and in the country somewhat less. The increase in the price of a barrel of flour from 1860 to 1868, throughout the Eastern manufacturing States, was in excess of 90 per cent; of salt, from 100 to 150 per cent; of butter, 100 per cent; of brown sugar, 70 to 80 per cent, etc. In respect to ordinary cotton goods, the advance, even as late as October, 1866, was, in currency, 172 per cent over the gold prices of similar fabrics in July, 1860; of woollen goods, 53 per cent; and of silk, about 100 per cent.

The general advance in wages during the corresponding period was generally as follows: for unskilled labor, 50 per cent; for skilled mechanical labor, 60 to 75 per cent. In the cotton-mills of New England the advance in the prices paid to female adults working by the piece was 50 per cent; of male adults, ditto.[1] In general, the effect of the agencies growing out of the war was to raise prices about 90 per cent, while the corresponding advance in wages was not in excess of 60 per cent.[2]

Elsewhere we have seen that Mr. Wells considered the excise to have been one of the chief agencies, if not the chief, to which this inflation of prices was to be attributed, and hence one of the means for raising the cost of living of the laborer, and the reduction of his standard of life. The taxes were in great part coerced wages in the form of diminished consumption of clothing, boots, food, etc., which the wage-earner was able to command as the fruits of his earnings.

Were it necessary to substantiate the testimony of these statistics of prices and wages, it is to be found in

[1] "Cobden Club Essays," 1871, p. 481.

[2] Report of Special Commissioner of Revenue, 1866, p. 14.

the evidences of curtailed consumption which characterize the period, and which contribute to corroborate the theory that taxation may be a significant force in determining the plane of life of a people. During the years coincident with the war the natural increase in the population of the loyal States was approximately four million souls, but the statistics of consumption for the same years show a constant and marked falling off in the demand for the staple necessities of life. Of cotton, for example, the home demand fell off from 978,043 bales in 1860 to 554,400 bales in 1865; of coffee the consumption during the years from 1855 to 1861 was 548,000 tons, which declined during the next six years to somewhat over one-half that amount. Sugar demand fell off in a like manner nearly fifty per cent; while in textiles, boots, shoes, and the like, the same diminution in consumption was apparent.[1]

From this it will be seen that consumption was materially decreased during this period; and while to the casual observer it might appear that wages had increased and the condition of the laborer improved, the rise in wages was merely an apparent one, for real wages, as measured in commodities, had actually declined. In order fully to appreciate this it must be remembered that there are real and nominal wages. The latter are the apparent wages of labor, represented by the currency of the country, while the former are determined by the standard of living of the consumer.

As the statistics indicate, nominal wages do not rise or fall concurrently with the rise or fall of prices. The price of labor is always less susceptible to the

[1] David A. Wells, in "Cobden Club Essays," 1871, p. 482.

sudden influences of artificial causes than those of commodities, and the reasons are not far to seek. The manufacturer, producer, or merchant is able to foresee the change, and can put up the price in anticipation of its arrival. Such is not the case with the wage-earners. They, like society, move as a mass, by a slow growth of consciousness. Labor is, moreover, more ignorant and more at the mercy of the moment, and has neither the ability nor the knowledge to anticipate and protect itself from the change which has taken place in other articles. Upon learning that the prices of other articles have advanced, the wage-earner does not immediately put up its price, because the inertia of the market is too great to be at once overcome. It is not until the full force of the movement reaches him, and he, as a class, finds that his nominal wages have lost purchasing power, and fail to secure for him what, according to his established habits, he has become accustomed to, that he begins to insist upon an increase in his wage.

But while they are slow to move, wages do follow the market price of commodities in a rough kind of a way; and as a sort of compensation, and this tends to alleviate the hardness of the burdens which the period imposed, labor is very reluctant to submit to a reduction again when prices resume their normal level.[1]

[1] "In the previous report of the commissioner it was proved, that while up to the commencement of the year 1867 the average advance of commodities was about 90 per cent, that of wages was not in excess of 60 per cent. Now, however, the case is being entirely reversed; commodities have fallen so much more rapidly that the purchasing power of wages, even when reduced, is probably greater at the present time than when they had attained their maximum." — Report of Special Commissioner of Revenue, 1868, p. 30.

Further evidence is hardly necessary to demonstrate the effect of the inauguration of a new system of taxation imposed upon the staple necessities of life, upon consumption, or the grievousness of a heavy excise upon those dependent for support upon fixed incomes or their daily toil. Such a system, if as excessive and universal as that imposed during the war, is unjust and discriminating; since it enforces unequal sacrifices upon contributors, and enables one class to enrich itself at the expense of the more dependent members of the community.

C. *The Excise and Industry.*

The tracing of causal relations in trade, commerce, and industry is an exceedingly complicated and delicate task; and any attempt at exactitude must be acknowledged to be well-nigh hopeless. To single out a particular cause, and attribute to its influence the changing phenomena of industrial relations at a time when the state was interfering with private enterprise on every hand, and when it was itself a very considerable consumer of all forms of commodities, would lead to unjustifiable conclusions; for this was a period preeminently of reorganization in all forms of trade and industry. Nothing was stable or fixed; the circulation of the country was inflated, speculation was well-nigh universal, and the war induced many reckless undertakings. The excise still further complicated industrial relations, but the effects of its influence differ according to conditions. In some instances it bore with a heavy hand, curtailing the productive power of small concerns, in some cases destroying them altogether; in others it served as a stimulant to intensified production, while

not infrequently it operated to accelerate the spirit of combination by segregating these smaller producers. Upon this latter class, it is generally conceded, the taxes were very burdensome; and, in fact, an excise, if heavy, is nearly always prejudicial to small producers. The duty advanced is hard to shift in the first instance, as the inertia of the market resists any increase in prices, and is slow to respond to any change in the cost of production. Much hardship was thus caused in the early days of the war, before prices had become elastic, and industry accustomed to the altered conditions of production. Moreover, the excise failed to take account of a losing business; and, while the period is one of quite general industrial activity, it was more or less abnormal, and the records of mercantile mortality indicate the death-rate to have been unusually high. Many firms produced for months at a loss, as even this course was preferable to complete suspension; and from such industries the license and general excise duties were as ruthlessly collected as from those producing at a handsome profit. As a representative case in point, the Commission reported a firm whose losses in business for six months were ninety-six thousand dollars, of which sum twelve thousand dollars had been paid in taxes.[1] The stamp-tax was also so devised as to give considerable advantage in the form of a discount to those purchasing in large quantities, a discrimination which has been held to have been sufficient, in the case of the match industry, to concentrate the industry of the entire country into a few hands, who have continued to monopolize the production up to the present day. In addition to

[1] House Executive Doc. No. 34, Thirty-ninth Congress, p. 5.

this, the advancement of the tax was of itself sufficient in many instances to cripple the small manufacturer; while the larger capitalist, ever alive to the advantages of the market, was able to profit by the same, as well as the opportunities for evasion. As a matter of fact, all the discriminations favored the large rather than the small producer; and the general tendency of these discriminations was to force those with the least staying power to the wall.

But, despite the burden of taxation, the ravages of war, and the removal of millions of men and capital from productive pursuits, the prosperity of the country seems not to have been greatly checked.

It is doubtful if the country was in any great degree poorer at the close of the war than at the beginning; the explanation of which is to be found in the intensification of industry traceable to the stimulating effect of increased demand, and to the incentives given to production by taxation. Such was the opinion of Mr. Wells, written in 1867: "It is not believed," said he, "that any great amount of Northern capital, accumulated prior to the war, was used or destroyed during the war, but that the service and commodities used were largely the product of the time."[1]

John Stuart Mill admits that a tax upon profits may serve as a fillip to industry, stimulating to intensified production, and the discovery and introduction of improved methods, which tend to cheapen production without depleting the income of the manufacturer. All acknowledge this to have been a period of great apparent prosperity. Industry sprang full grown into life,

[1] Report of Special Commissioner of Revenue, 1867, p. 19.

fortunes were rapidly acquired, while labor found a ready market for its activity. On the other hand, consumption of staples in time of war is not likely to equal that of peace. There are no more mouths to feed nor backs to cover. At the same time enforced economy is likely to diminish demand for many articles, the only increase in consumption lying in the field of munitions and appliances of war. Experience seems to prove also that production does not suffer any great check, either through the transfer of labor to military service, or through moderate demands of the taxing power. The productive power of the country may, in fact, be increased. The farmer, for instance, will not permit his fields to lie idle because one of his sons has entered some other pursuit, nor will the capitalist allow the wheels of industry to rust because the state has assumed a portion of the produce. So long as a market remains, each will seek to compensate himself for the loss which he has endured. Either remaining labor will intensify its exertions, or ingenious contrivances will be devised to supply the depletions of labor, or to compensate for the exactions of the tax-gatherer. That these phenomena characterized the period now under discussion is too well known to require proof. A brief glance, however, at the statistics of the patent office for these years may demonstrate somewhat more graphically that such tendencies were really operative. The total number of patents issued during the years extending from 1861 to 1866, as well as the total taxes collected, were as follows: —

PATENTS GRANTED.		INTERNAL REVENUE.	PATENTS GRANTED.		INTERNAL REVENUE.
1861	3340	. .	**1864**	4637	$110,210,000
1862	3521	$ 1,790,000	**1865**	6220	210,660,000
1863	3780	39,120,000	**1866**	9100	311,200,000

From this it will be seen that the number of patents issued varied in a ratio corresponding somewhat roughly with the amounts derived from internal taxation, increasing but slightly up to 1863, but from that time on growing at a rapid rate. Such a coincidence would seem to indicate some relation existing between them. In agriculture the development of labor-saving machinery was phenomenal, and is attributable, in part at least, to the drain on the rural laboring classes for recruiting the army; but in industry the same scarcity of laborers was not so marked, and the cause for the unprecedented development of labor-saving machinery is found in the desire of the manufacturer to indemnify himself for the inroads made upon his capital and income by the state.

It is true that many industrial establishments were checked, some even destroyed, by the excise. These were the marginal producers, the no-rent "*entrepreneurs*," whose elimination from the field of competition gave those remaining an additional stimulus for exertion. A glance at the change which the period wrought in the textile industries of New England, as well as in the iron and steel business of Pennsylvania, which during these years of disordered trade conditions were running full hands, proves that wealth was being produced at a rapid rate, and that the country was not being impoverished by the demands of war.

D. *Conclusion.*

To reach any proper estimate of the vast and complicated fiscal system which we have been considering in the last four chapters, it is necessary to take

cognizance of the fact that the excise was the product of extraordinary conditions; as in all our periods of financial change a gigantic war formed the background, demanding contributions so unusual as to set exact, or even approximate, justice at defiance. The imperative necessities of the occasion precluded a careful and scientific study of the consequences and burdens of the taxes provided for, and, even were it possible, under the most favorable circumstances, to determine with precision the incidence of taxation in general or of each tax in particular; if one could determine to what degree each tax was susceptible of being charged to a particular class, or upon a particular commodity, trade, or business; if one could determine consequently upon whom it is socially the most legitimate to cause the public burdens to fall.—even were such problems as these susceptible of exact scientific determination, as they are not, it is hardly to be expected that Congress, with no special knowledge of the principles of finance, with no precedents for guidance, and with little statistical data of manufactures or commerce, should have been able to solve "the art of plucking the fowl without making it cry out."

In view of all these circumstances, our amazement is not so much that so many social, moral, and industrial ills should have followed in the trail of the fiscal legislation of the period, but rather that any nation could have sustained the withdrawal of business capital to the amount of $4,660,000,000 by loans and treasury notes, of $666,000,000 by internal taxation, and $525,000,000 by customs duties, without being well-nigh prostrated thereby. Yet such was the experience of this

country during the years extending from 1861 to 1866; but so elastic was industry, and so versatile the ingenuity of the people, that the burden, though appreciable, scarcely checked the onward march of the country's prosperity.

The early policy of the Administration was to leave industry untouched, and to rely in great measure upon the proceeds of loans and treasury notes. A similar misplaced confidence in the customs revenue and credit of the country had brought the administrations of Gallatin and Campbell to the brink of insolvency in 1814, and Secretary Chase did not escape a like fate. It is hardly too much to state that, had the machinery for immediately realizing on the currently created wealth of the country existed at the outbreak of the war, the receipts from such internal sources as the income tax, license, stamp, spirit, and tobacco duties might have been rendered immediately productive of $100,000,000, a resort to treasury notes might have been averted, and the war been brought to a more speedy termination.

Moreover, when Congress did take the matter seriously in hand, its action was such that the consumer was frequently unnecessarily oppressed, while the Treasury received the minimum of return from the maximum of effort. And the general excise upon consumable commodities, other than spirits and tobacco, was in the main responsible for the evils which resulted. It was to the influence of these taxes that much of the speculation, uncertainty, and business disaster which marked the period was attributable. They induced an undue enhancement of prices; they took from the pockets of the payer much more than ever reached the Treasury.

Wages were affected by them, both in the diminution of active capital devoted to business, but much more by the increase in the cost of living which ensued. At the same time the excise, together with the tariff, gave to all industry an artificiality and instability which became manifest in the great number of commercial failures which followed in the wake of the war. Small establishments were forced into liquidation or concentration with other concerns, while many others, by inequalities of the tariff and internal taxes, ceased producing. In general, commercial conditions were in a state of great instability, and continued so for many years subsequent to the close of the war.

But the defence of the general excise on manufactures was that it was productive. Not immediately as fruitful as Mr. Morrill had anticipated in 1862, when he estimated its productivity at $75,000,000, but still so important as to form 34.61 per cent of the total receipts during the five years of its continuance, from 1863 to 1868. Obviously, to have deprived the Treasury of this important source of revenue would have caused serious embarrassment. And it is doubtful if the financial support necessary for the conduct of the war could have been secured, save at great sacrifice, without the aid of these taxes, baneful as they were in their effects. Even before their imposition the credit of the country had been strained to the utmost to meet the demands placed upon it. A further dependence upon loans was apparently out of the question. The only other alternative lay in the discovery of new sources, or other means of realizing upon currently created wealth through other forms of internal or customs taxes. But already the

customs rates were well-nigh prohibitive, and the only escape from the general excise, with its many imperfections and evils, lay in some such concrete system of inland taxation as the Commission suggested for the reorganization of the finances at the close of the war. This contemplated a concentration upon incomes, luxuries, stamps, licenses, and some of the other less objectionable forms of revenue, which would have relieved the country from the burdens of the tax upon manufactures and products. But the rates upon these subjects were already as high as they would bear, and any attempt to increase the rates would have resulted in evils and complications greater than those sought to be avoided. And had such a concrete system been depended on without some such change of rates, the Treasury would have been deprived of $36,222,716 in 1864, of $73,318,450 in 1865, and of $127,230,608 in 1866 (the collections from manufactures and products), or 31, 35, and 41 per cent of the total receipts from internal sources during these critical years.

To suppose that these collections could have been rendered good by a further resort to the income tax and an increase in the duties upon distilled and malt liquors, tobacco, stamps, and licenses, which, as has been shown, were already taxed at an almost prohibitive rate, is untenable; and we are forced to conclude that public policy justified measures which seem to have been as inimical to the material interests of the country as any that could have been devised.

The experiences here described are further instructive, in the highest degree, of the practical limits set by nature to the power of government to derive revenues

by taxation. A government may be loath to admit its inability to cope with the ingenuity and cupidity of private interests, and to acknowledge its incompetency to collect any rate of taxation which it may choose to impose; but the experience above recorded proves most conclusively that a fiscal system, to be efficient, must not contravene the principles of human nature, or place too great a strain upon official integrity, or too high a premium upon dishonesty; and that a government which disregards this elementary principle, not only cheats itself, but tends to degrade the standard of public honesty and probity. Moreover, nothing displays the boundless resources of the nation more strongly than the ability with which the people accepted and bore a system of taxation almost unparalleled in its universality and in the rates which it imposed.

We have seen the internal revenue system, however, in its worst light. Later modifications have brought the system into such universal favor that to-day it is opposed only upon political or sentimental grounds. Fraud and evasion have been reduced to a minimum, while the objection formerly advanced with so much effect, namely, that it interfered with individual liberty, has disappeared before the advancing sense of the people. The cost of collection has further been so reduced that the excise has become the cheapest of taxes. Moreover, as it now exists, and under ordinary conditions, the charge of inquisitorialness cannot be applied to it, although at one time this doubtless constituted a grievance with the people. But a consideration of these changes will be deferred to a later chapter.

CHAPTER VII.

THE ADMINISTRATION OF THE INTERNAL REVENUE SYSTEM.

A TAX may be theoretically the most just that can be devised, but in its collection so fraught with difficulties and complications as to render it untenable. It is the supposed difficulties inherent in its administration that have condemned the excise in the past, for it has been supposed that, in addition to the fact that it is cumulative, and requires a large number of officials to collect it, the excise obstructs industry, is a check to its development by requiring a disclosure of processes and methods of manufacture, and is thus inquisitorial and hostile to the spirit of a free people. Moreover, an excise is said to offer great opportunities for evasion, either by false returns or by connivance with dishonest officials, and in this way tends to discourage public probity, and degrade the moral tone of a people. Such objections as these have been, and are still, urged against the excise in foreign countries, and it was such a traditional dislike in the minds of the colonists of English and Irish descent, with whom the idea of an excise was inseparably connected with the window and hearth tax, that induced much of the hostility against its inauguration in this country in the early days of the Republic. Many of these objections were well founded during the greatest extension of the excise; but at the

present time, with the reduction of the number of taxable articles and the perfection of the machinery of administration, such arguments have lost their force, for later changes have elevated the system well-nigh beyond reproach.

In administrative details the collection of the tax has undergone many changes since the organization of the department under the law of July 1, 1862. This measure followed closely earlier precedents, both in the selection of articles to be taxed, as well as in prescribing how they should be placed under contribution.

In 1861, in harmony with the prevailing belief in the early suppression of the war, no provision was made for a permanent and independent bureau of internal revenue. The assessment and collection of the direct and income taxes was reposed with the Secretary of the Treasury, under whose direction was placed a Commissioner of Taxes, whose duties were those of preparing forms, and general superintendence of subordinate officials. But the growing appreciation of the enormity of the struggle, and the necessity for increased revenues from inland sources, led to the creation of the office of Commissioner of Internal Revenue, whose duties were mainly ministerial and administrative; the new official being charged, under the direction of the Secretary of the Treasury, with preparing all instructions, regulations, directions, forms, blanks, stamps, licenses, and the distribution of the same, as well as all other matters pertaining to the assessment and collection of the tax, and its general superintendence. A definite number of deputies and assistants was provided for, to assist him. Along with these were five, and later ten, special agents,

whose duty it was to aid in the prevention and detection of frauds, and to look after the general enforcement of the law.[1]

For convenience of collection, the States and Territories were divided into districts, varying in size according to density of population or other conditions, in each one of which a principal assessor and collector were appointed, endowed with plenary power further to subdivide their districts into smaller areas, in which assistant officers were to be appointed.[2] Certain small or sparsely populated States comprised one district; while others more densely populated, as the eastern manufacturing States, were divided into a large number of administrative districts. Thus New York included 32 districts, Pennsylvania 24, Ohio 19, Illinois 13, Indiana 11, and Massachusetts 10.[3] These districts were usually coextensive with Congressional districts, and could not exceed them in number. Returns were required from all persons, partnerships, firms, associations, or corporations rendered taxable, before the first Monday in May of each year, the return to include the amount of annual income, the articles or objects charged with a tax, the quantity of goods, wares, and merchandise made or sold, and charged with a specific or ad valorem duty, according to the forms as provided by the Commissioner of Internal Revenue. In case of failure on the part of the taxable to make such return, the assessor was empowered to make up the tax duplicate from the best information

[1] Act of July 1, 1862.

[2] See Report on Finances, 1867, p. 266.

[3] Boutwell's "Direct and Excise System in the United States," 1864, p. 242.

available; and, if any person disclosed a false list to the official with intent to evade payment, he was finable in a sum not exceeding $500. In case of refusal to make return, the assessor was empowered to enter upon the premises, and make out a list of taxable objects, and add thereto fifty per cent as a penalty for refusal. If any person objected to his assessment, the right of appeal from this decision of the official was allowed. These lists, with the taxes payable thereon, were delivered to the collector of the district, who was authorized to proceed with their collection; and, if the duties were not paid within ten days after such demand, he was empowered to collect by distraint and sale of the goods, chattels, and effects of the delinquent, and to add thereto ten per cent as a penalty. Lists of collections were transmitted monthly to the commissioner, and deposits were made by the collectors, upon order of the commissioner, in such depositaries as were designated by him.

At the organization of the system the force of officials was unusually large, although even at this time the commissioner asserted that the number employed did not equal that of other countries where similar systems prevailed.[1]

From the inauguration of the system, the administration suffered seriously from the changes continually made in the personnel of the employees, which completely neutralized the most zealous efforts to secure a trained service. In 1867, when the entire number of collectors slightly exceeded 700, the number of removals for the year was 230;[2] while, of the 3,100 assessors and

[1] Report on Finances, 1867, p. 268. [2] *Ibid.*, p. 267.

assistants in the service that year, over one-third were supplanted by new and untried appointees. As a very natural result, inefficiency and maladministration characterized the service, dissipating the confidence of the public, and deleteriously affecting the revenues.

Two causes were in the main responsible for this result: one, the inadequacy of the remuneration offered; but by far the most potent cause was the absence of a merit system for the determination of appointments. Probably no branch of our national administration has suffered so much from the spoils system as has the internal revenue service; for in no department of the government are efficiency and honesty so essential in the employee.

In addition to the regular officials enumerated above, temporary assessors were engaged during the annual assessments, while a small army of detectives and inspectors for the prevention of fraud were constantly employed. Plenary authority was granted all grades of officials, and the principle of personal responsibility was insisted on. Every subordinate received his commission from his immediate superior, who directed his work, required commensurate bonds, and was directly responsible for his acts.[1] By this means it was hoped to relieve the central administration of a vast amount of detail and minutia, while it was further thought that the numerous gradations of officials would serve as a corrective of errors in accounting. That these latter expectations were not fulfilled, may be inferred from a treasury circular dated December 29, 1865, from which it appears that, during the preceding four months, over

[1] Report on Finances, 1867, p. 266.

three hundred and sixty-five errors had been detected in the returns, involving amounts ranging from a few cents to sixty thousand dollars. Embezzlement was also more or less frequent, but the greatest losses were traceable to the incapacity and dishonesty of officials and to poor assessments. So badly was the system administered, in fact, during the first two or three years, that it has been estimated that less than one-third of what was paid by the people passed into the Treasury.[1] In 1865, competent authorities calculated that existing laws should have produced $500,000,000, while, as a matter of fact, less than half that amount was collected.

Innumerable cases might be instanced to demonstrate that the extravagance of the war was quite equalled by the wasteful and inefficient methods of administration which prevailed, evils which were so flagrant as to cause the entire system to be viewed with suspicion and distrust. The duties upon many articles were so high as to stimulate evasion, while the probability of detection was so unlikely that it failed to serve as a deterrent. Corrupt whiskey rings influenced the appointment of men who connived with them in evading the duty, so that distillers, otherwise honest, were forced either to suspend business or become partners to the crime. As the commissioner stated, "It requires a man of tried integrity to resist the flattering temptation of a corrupt distiller. Ten thousand dollars adroitly and wickedly expended may hide the manufacture of a thousand barrels of wine, which would yield a hundred thousand dollars for the public revenues. If an inspector has forgotten his duty in a single instance, he is in the power of his pur-

[1] *Commercial and Financial Chronicle*, 1870, p. 711.

chaser for all subsequent transactions, becoming his constant protector, and his ready witness against the government." [1]

During the continuance of hostilities but little effort was made to introduce the system into the rebellious States. With the triumph of the Union arms and the restoration of peace in the border States, officers were appointed to proceed with the collection of the tax; and it became necessary to decide whether or not taxes which had accrued prior to the establishment of federal authority therein should be collected. Secretary McCulloch decided that in view of the non-existence of officers to whom payment could have been made, as well as the heavy and exhausting burdens and ravages of the war already resting upon these States, that, without waiving in any degree the right of the government in respect to the taxes, the department did not deem it advisable to insist on their payment, so far as they were payable prior to the establishment of a collection district embracing a territory in which the tax-payer resided.[2] For similar reasons the secretary was induced to suspend the sales under the direct tax. In view of these facts, as well as the grave difficulties which would arise, and the interests which would be invalidated were the provisions of such taxes as the stamp-duty insisted on, Secretary McCulloch advised: —

First, that the collection of all internal revenue taxes which accrued before the establishment of revenue officers in the Southern States be indefinitely postponed; *Second*, that all sales of property in those States under the direct tax be suspended until the States should have

[1] Report on Finances, 1866, p. 56. [2] *Ibid.*, 1865, p. 29.

an opportunity of assuming the tax; *Third*, that all transactions in such States, which may be invalid by the non-use of stamps, be legalized.[1]

These recommendations were substantially adopted, and as rapidly as possible federal tax-gatherers were appointed, and the system extended to the reconstructed States.

The perfection of the details of the service received, but scant attention during the war; but with the growing familiarity of officials with its defects from the disclosures of the press, as well as the invaluable investigations of the Revenue Commission, the importance of administrative efficiency became apparent. A careful revision of so much of the law as related to the manufacture and assessment of distilled spirits was made at the instance of the Revenue Commission in the years immediately subsequent to the war, the leading feature of which was the subjection of each distillery to the direct surveillance of a government inspector, whose duty it was to oversee the process of manufacture and sale, and the assessment of the duty. While the change was conducive of greater fidelity on the part of weighers, gaugers and other officials, and placed an additional check upon them, the powerful inducements which could be offered by the dishonest distiller frequently neutralized the effect of the measure; and there was no provision for constant rotation of the inspectors from one still or district to another, as was suggested by the Commission, a provision which would have greatly enhanced the efficiency of the law. But the effect of this, as well as all other remedial efforts on the part of Congress, was

[1] Finance Report, 1865, p. 30.

checked by the dishonesty, complicacy, and inefficiency of officials, traceable in part at least to the system of appointment and retention in office for political service.

With the abatement of the duties, and the decrease in the number of taxable articles, the defects of the method of assessment were more noticeable. During the war, stamps had proven a most effective method, not only as a means of taxing acts and instruments, but also certain classes of commodities as well. The method was simple, the returns easy of collection, and evasion well-nigh impossible. In 1868 [2] this plan was extended to tobacco, malt and distilled liquors, and license duties, and with some slight alterations remains the method of assessing these objects at the present day. By this plan, the stamp, of proper denomination, is affixed to the package containing spirits, beer, or tobacco, with an indication upon its face of the quantity of the article within. In the case of special license taxes a similar stamp is required to be prominently displayed in the place of business. The results of this change were immediate and marked. Receipts from all sources showed a quick response, while the difficulties of collection were reduced to a minimum.

This reduction of the number of taxable objects, and the substantial concentration of the system upon luxuries, banks, legacies, and a few commodities, soon rendered possible still further simplification. Heretofore assessments had been made by local officials, appointed in each revenue district. In 1872 [2] the local force was abolished altogether, and the official force reduced by the dismissal of 228 assessors, 240 clerks, 1,040 assistant

[1] Act of July 20, 1868. [2] Act of Dec. 24.

assessors, their work being centralized at the Treasury Department, and the commissioner authorized personally to make the various inquiries, determinations, and assessments of taxes which had heretofore been done by these local officials. Under this arrangement assessment lists are now made up by the commissioner, and forwarded to the collectors of the various districts, thus insuring greater uniformity in returns. The change was most radical, but the results proved equally astonishing. In addition to saving nearly $2,000,000 annually in the form of salaries and expenses, an immediate increase in the revenues resulted. This was especially noticeable in the case of license taxes and those on banks, an increase in collections of half a million accruing from the latter source in 1874, and of nearly ninety per cent from the former. At the same time[1] the number of revenue districts was reduced to eighty; but this revision never went into effect, although four years later the number was reduced to one hundred and thirty-one.[2]

The system of local administration, as above described, depended wholly on the assumption that local officials are honest. And where such is the good fortune of the government the tax has been uniformly collected.

It would seem that with the intricate system of checks imposed, illicit distillation would be well-nigh impossible; yet so much more acute is private activity, when inspired by cupidity and the probability of great gains, that these guards have, from time to time, been broken down. But to do this it was necessary to secure the co-operation of both the storekeeper and the gauger, and then to place the spirits upon the market through

[1] Act of June 6, 1872. [2] Act of Aug. 15, 1876.

the re-use of stamps, or by the co-operation of the rectifier.

It was by such means as these that the great frauds, extending from 1872 to 1875, were committed; and so strong were the interests involved, and so inscrutable the means employed, that it required the most vigorous efforts on the part of the government to extirpate the ring, and bring the leaders to justice. The mania for fraudulent profits, so long gratified during the war, sought other avenues for gain at its close; and while the reduction in the rates and the changes in the service rendered the profits more precarious and the advantages resulting less tempting, still they were sufficient to call into being the great whiskey ring in the early years of the decade beginning with 1870. The fortunes of this corrupt organization were fostered by the connivance of many influential persons high in public authority. Organized at first for the promotion of certain political aims, after their accomplishment it was conducted for the fraudulent advancement of private ends; and so notorious at last became its operations, and so widespread its influence, — the nation itself being co-extensive with its operations, — that an investigation was made, its methods exposed, and the principals brought to justice. The enormity of the ring's operations will never be fully known, but a partial appreciation may be had from the fact that in St. Louis alone the losses to the revenue approximated $1,200,000 annually.[1] As

[1] For a graphic account of the methods and aims of the ring, as well as the many prominent public officials implicated, see the confession of General John McDonald, "The Secrets of the Great Whiskey Ring, and the newspapers of the day."

further indicative of the immensity of its operations, the commissioner reported in 1875, that he had documentary evidence that warranted him in seizing twenty-four distilleries and thirty-seven rectifying houses, implicating over fifty United States officials. The evidence further showed that there had been issued during the ten months extending from July 1, 1874, to May 1, 1875, 20,000 packages of fraudulent spirits; while, by the aid of false gauging, over one million additional gallons escaped, entailing a loss to the government during this comparatively short period of $1,650,000.[1] During the years covered by the operations of the ring, the total losses to the Treasury amounted to at least four million dollars.

Since this time the revenue service has been conducted with singular fidelity, and has steadily improved in efficiency. Evasions still occur, and some illicit distillation is still carried on in the outlying districts and in the large cities. Discoveries of illicit distillation have markedly increased since the last increase in the rate to $1.10 per gallon; and the average number of stills destroyed since the rate went into effect has approximated one hundred and fifty per month. The most strenuous efforts of the department have been ineffectual in closing up the moonshine stills in the South; and recently large numbers of small stills have been discovered in the Northern cities, where a still with a capacity of forty or fifty gallons per day can be secreted in a cellar or garret, and an inferior quality of spirits produced at an average cost of less than twenty-five cents per gallon. Such a still costs but a few dol-

[1] Report on Finances, 1875, p. 157.

lars, and detection is only possible as the spirits are placed on the market. The loss which accrues to the revenues from this source cannot be estimated with any exactitude, but it has been placed at more than four million dollars annually.

In concluding this sketch of the years of experimentation by means of which the present perfected machinery for the garnering of the resources of the nation into the Federal Treasury has been brought about, it may not be inadvisable to describe in some detail the workings of the internal revenue department in the collection of the several taxes at present imposed. The ground plan of the system has not changed fundamentally from the outlines defined by Hamilton over one hundred years ago. As in the department of customs, the chief ministerial officer is the commissioner, whose duties remain substantially as outlined in the Act of 1862, as described in an earlier portion of this chapter. In recent years, with the gradual reduction of the system, there has been a tendency to centralize and simplify the collection of the taxes, as is seen in the abolition of the offices of district assessors, as well as in the reduction of the collection districts, of which there are at the present time but sixty-three.[1] It is now the duty of the commissioner to make all inquiries, determinations, and assessments of all taxes and penalties, and to certify a list of such assessments to the collector of the proper district, who is authorized to collect and account for the same to the commissioner. The latter officials are appointed by the President, by and with the consent of the Senate,

[1] The number was reduced to 131 in 1876; to 126 in 1877; to 84 in 1883; and to 63 by Executive Order of May 21, 1887.

and must be residents of the districts in which they serve. Every collector, before entering upon the duties of his office, is required to execute a bond, with not less than five sureties, conditioned upon the faithful performance of his duties. He is then empowered to appoint as many deputies as he may deem necessary, for whose actions he is, in a like manner, held responsible.

In addition to the official force directly employed in the collection of the taxes, there are appointed by the commissioner a certain number of special agents, who are deployed from the central office for the purpose of checking any attempted evasion or suspected complicity on the part of other officials; while the Secretary of the Treasury is authorized to appoint, wherever deemed necessary, a certain number of gaugers and storekeepers, whose duties will be described later.

SPECIAL OR LICENSE TAXES.

The license taxes now remaining upon the statute books may be looked upon as subsidiary and ancillary to the general specific duties imposed upon distilled and malt liquors, tobacco, and oleomargarine. Since 1872 [1] all license taxes have been collected by means of stamps, which must be conspicuously displayed in the place of business; and on default of the same the dealer is subject to severe penalties. The duty is a graduated one, and applies to all persons, firms, and copartnerships engaged in the business of manufacturing, selling, or distributing these articles, save retail tobacco dealers, who

[1] By Act of Dec. 24, 1872.

have been exempt since 1890.[1] It is, in effect, a charge, as a condition precedent to the transaction of business; and the rates range from $600 upon the manufacturers of oleomargarine and $200 on rectifiers of spirits having a still capacity of 500 barrels or more, down to $20 upon retail dealers in malt liquors. Every person engaged in any one of the businesses subject to the tax is required to register with the collector of the district, and furnish specific information in regard to his residence, place of business, etc.

DISTILLED SPIRITS.

No portion of the service has been the object of greater attention on the part of the government than the collection of the tax upon distilled spirits, and no part of the system is now administered with greater fidelity. However faulty the collections may have been in the past, it is safe to say that at the present time evasion is almost unknown outside of the "moonshine" districts in the mountainous regions, and in the large cities. By a system of checks and espionage, the production of distilled spirits is substantially in the hands of the government; for it oversees the production of the article from the moment the grain enters the storehouse until the manufactured article is retailed. The distiller is little more than the agent of the government in the matter. He invests his capital, and assumes all the risks. His still must be constructed according to approved plans, his machinery must pass inspection and

[1] By Act of Oct. 1, 1890, so much of the tax as applied to dealers in tobacco and cigars, manufacturers and peddlers of the same, was repealed.

be of an approved pattern, ere he can begin operations. No movement goes unrecorded, the severest penalties are enforced against him for breach of regulations, and his entire plant and bond may become forfeited upon some mischance or inadvertent act. Even the keys of the cistern-rooms, fermenting-tubs, warehouses, etc., are in the hands of the government; and the distiller is even denied access to the place of manufacture save upon permission, or to the warehouse after the spirits have been placed in bond. Not only is the distiller required to transmit to the collector a minute account of the operations of the still, but a government storekeeper is placed in charge of each distillery, whose duty it is, in addition to the oversight of the warehouse, to keep a daily account of all the materials brought to the distillery to be used in the business, of all fuel consumed, repairs made and by whom, of the materials put into the mash-tub, of the time when any fermenting-tub is emptied, and of all the spirits drawn off from the receiving-cistern, and, in fact, every operation of the business. All of this is carefully recorded, and transmitted to the Commissioner of Internal Revenue, as well as to the collector of the district. From the distiller a similar account is also required. When produced, the spirits are placed in packages under the supervision of the gauger, who proves the same, and cuts upon the package containing the spirits the quantity contained therein in wine and proof gallons. They are then removed to the warehouse, where the gauger, in the presence of the storekeeper, places upon the head of the package an engraved stamp, signed by the collector of the district as well as by the storekeeper and

gauger, upon which is written the number of proof gallons in the cask, the name of the distiller, date of receipt in the warehouse, and the serial number of each cask or package. Here they are permitted to remain for the term of eight years, when they must be withdrawn, tax paid, under penalty of forfeiture of bond, and placed upon the market. Upon withdrawal, they again pass under the review of the several officers of the government, are gauged, and allowance made for leakage. The package is again stamped, the contents noted upon the package, and the article is ready for market.

By this system of checks and counter checks, successful evasion in a registered distillery has become well nigh impossible. To perpetuate fraud, it is first necessary to secure the co-operation of the gauger and storekeeper in the making of returns. But even this is highly dangerous, from the fact that the government is in possession of records relative to the producing capacity of each still, as well as the fermenting and mashing period of the same. As a further check, officials are liable to be transferred from one still to another, without notice; while the special agents and surveyors in the employ of the government are empowered at all times to enter and examine the books and operations of every still, and report on the condition of the same.

In the fiscal year 1894, 2,729 violations of the internal revenue laws were reported by the revenue agents, which led to the arrest of 632 persons, and the seizure of $246,197.96 worth of property; while over forty thousand dollars worth of property was seized for unpaid taxes and penalties.

FERMENTED LIQUORS.

Before commencing business, every brewer is required to file with the collector of his district a notice of such intention, as well as a description of the premises employed, and to execute a bond in a sum equal to three times the amount of the tax, which, in the opinion of the collector, the brewer will be liable to pay during a month, conditioned upon the faithful execution of the law, and the payment of the tax upon his product. He is further required to render to the collector monthly a verified statement of the operations of his brewery, the amount of beer produced and sold, and to keep his books open at all times to the inspection of the government.

The same careful scrutiny and supervision provided in the case of distilled spirits has been found to be needless in the case of the tax on fermented liquors, which is largely self assessed. Stamps are used as in other subjects,[1] but the brewer is permitted to affix them himself. But in order to prevent their re-use they are required to be placed over the spigot hole on the head of every barrel upon sale or removal from the warehouse, which stamp shall be destroyed by driving a faucet through the same, and cancelled by writing across the face of the stamp the name of the person by whom such liquor was made, as well as the date when cancelled.

Severe penalties are imposed upon manufacturers or dealers for failure to comply with these requirements.

[1] The Act of July 13, 1866, provided for this change.

TOBACCO, CIGARS, AND SNUFF.

In the collection of the tax upon tobacco in its various forms, the government depends almost wholly upon the use of stamps as a prevention of fraudulent production. This method was first introduced in 1868, at the instance of the manufacturers themselves; and it has proven most efficient as a means for the detection of false returns. Before commencing manufacture, every producer is required to furnish to the collector of the district a verified statement of the location of his business, the number of machines used, quality of tobacco produced, etc., and to furnish bond in amount ranging from $2,000 to $20,000, conditioned that he will not attempt to defraud the government in the payment of the tax, and that he will make due return of all his processes, and will properly stamp all his output. Failure to comply with these preliminary requirements renders the manufacturer liable in amounts ranging from $100 to $5,000, and imprisonment. In the conduct of his business the manufacturer is subject to the same restrictions as in the case of the production of malt and distilled liquors; he must place a conspicuous sign upon his premises, take an annual inventory of all stock on hand, and keep an itemized account of all the operations of his business, recording all tobacco purchased by him, as well as the amount removed for consumption and sale, or transferred in bond, and must make a verified return of the same monthly to the collector, subject to severe penalties in case of failure. Further stipulations are imposed in the directions for packing and shipping tobacco, the manufacturer being required to put up his

product in certain prescribed packages, and to stamp the same, and print thereon the manufacturer's name and place of manufacture, the registered number of the factory, and the weight of the contents of the package. And if any person receives for sale tobacco which has not been properly stamped and branded, he shall be held liable in severe penalties in a like manner. The provisions are the same in regard to the manufacture and sale of cigars.

OLEOMARGARINE AND OPIUM.

As the duties upon oleomargarine and opium are professedly protective and sumptuary, and not designed as revenue measures, consideration of them has been deferred to the present chapter. The measure imposing a duty on oleomargarine was passed in 1886,[1] in response to the existing sentiment against its use and the demands of the agricultural interests; and the measure has been the precursor of kindred acts in nearly all of the States, which have quite effectually stopped its use. The rate of the tax is two cents per pound, or fraction thereof, while special license charges are imposed upon manufacturers of $600, upon wholesale dealers of $480, and upon retail dealers of $48.

In the assessment and collection of the duty the same minute regulations regarding registration, bond, the keeping of books, and returns to the collector, are provided as in other subjects; while the product must be packed, branded, and stamped according to the directions of the department. Like provisions apply to the manufacture

[1] Act of Aug. 2.

of opium for smoking purposes, the rate of tax being ten dollars per pound.[1] The recent measure of Aug. 24, 1894, in so far as it related to the taxation of playing-cards, adapted the stamp and registration system to this subject.[2]

The collections on behalf of the duties on oleomargarine and opium are as follows: —

	OLEOMARGARINE.	OPIUM.		OLEOMARGARINE.	OPIUM.
1887	$ 723,948	. .	**1892**	$1,266,326	$700
1888	864,149	. .	**1893**	1,670,644	125
1889	894,248	. .	**1894**	1,723,480	410
1890	786,294	. .	**1895**	1,409,211	. .
1891	1,007,924	. .			

COST OF COLLECTION.

Early experience, as well as the prevailing opinion at the outbreak of the war, inclined to the belief that taxes from inland sources would be so costly of collection as to be of doubtful availability. If a tax signally fail in this respect, it is not easily defensible; and, while every indirect tax is more or less cumulative in its nature, still, in so far as the initial cost of collection is concerned, it may be contended that the excise taxes have proven to be the most economical of duties. In this respect they stand pre-eminent, for neither the customs revenue nor the States' systems return receipts to the public treasury at so slight a charge as does the federal excise.

During the period from 1812 to 1816 the charges

[1] Act of Oct. 1, 1890.

[2] For existing laws relative to internal revenue department and the assessment and collection of the several taxes, see Revised Statutes of the United States.

for collection ranged from 7.8 to 4.8 per cent, and at the organization of the department of internal revenue in 1862 it was estimated that the cost of collecting the excise tax would considerably exceed the customs. From the wide expanse of territory, the almost infinite number of taxable articles, the untrained condition of the service, it was variously estimated during the pendency of the first internal revenue measure in the Thirty-seventh Congress that the charges for collection would be from seven to twelve per cent; and it was freely contended that the excise proper could not reach the Treasury for less than fifteen or twenty per cent of its amount. Experience soon demonstrated the falsity of these predictions; for many of the taxes, such as licenses, stamp-duties, and the taxes on corporations, cost comparatively little and were highly productive; while the income tax, which returned nearly eleven per cent of the entire revenue collected from inland sources, was likewise an inexpensive one to collect.

During the first year's operation of the system, the receipts were comparatively light, — but little over forty-one millions, — while the expenditures consequent upon the inauguration of a new system were necessarily heavy. As the collections gradually increased, however, from 1863 to 1866, in which latter year they attained the sum of three hundred and ten millions, the charges for administration gradually diminished, until, during the latter fiscal year, they were reduced to one-half of what they had been in 1863.

The percentage cost of collection during this period, and the gross receipts from internal revenues, were as follows: —

	TOTAL REVENUE.	COST OF COLLECTION.
1863 . . .	$ 41,003,192.93	5.15 per cent.
1864	117,145,748.52	3.28 "
1865	211,129,529.17	2.28 "
1866	310,906,984.17	2.22 "
1867	265,920,474.65	2.69 "

At the present time the receipts from this source are returned to the public coffers at an expense of less than three per cent,[1] the customs costing somewhat more than that amount.

[1] In 1893 the percentage cost of collection was 2.62 per cent; in 1894, 2.70 per cent; and in 1895, 2.88 per cent.

CHAPTER VIII.

INTERNAL TAXATION UNDER PEACE CONDITIONS, 1870–1895.

By 1870 the country had in large part adjusted itself to the changed economic and industrial conditions, the echoes of the war were slowly being lost in the gathering hum of the enlarged industrial development upon which the country was entering, while an era of unparalleled railway construction was rapidly converting the distracted energies of the South and the hidden resources of the great West into richness and abundance.

The population of the United States at this time numbered 38,558,371. The national debt amounted to $2,480,672,427, or $64 per capita, a reduction since 1865 of $363,977,199, at the average annual rate of $72,795,439. The annual interest charge thereon was $118,784,960.[1]

Before entering upon a consideration of the modifications introduced into the internal revenue system during the last quarter of a century, it may not be out of place to contemplate for a moment the changes which have come over budgetary management during the period. As has been frequently remarked, the growth of constitutional government has been accompanied by a phe-

[1] The interest charge of the debt is very variable, owing to the refunding operations. In 1893 the interest charge had been reduced to one-fifth its size in 1871, although the principal of the debt had been reduced but little over one-third.

nomenal increase in expenditure. In America this tendency has manifested itself in river and harbor improvements, the erection of public buildings, the advancement of science and education, in pension legislation, Indian appropriations, and the creation of a naval establishment; and, in fact, in every line of governmental activity. This increase in expenditure forms the peculiar feature of the period we are about to consider. How marked this change has been in the attitude of the nation toward itself, and the proper constitutional sphere of federal activity, is apparent from an examination of the expenditures for the two fiscal years, 1860 and 1870. The disbursements are as follows: —

	1860	1870
War	$16,472,202	$57,655,675
Navy	11,514,649	21,780,229
Indians	2,991,121	3,407,938
Pensions	1,100,802	28,340,202
Miscellaneous	27,977,978	53,237,461
Net ordinary expenditure	$60,056,752	$164,421,505
Public debt	13,854,250	393,254,282
Premiums	. . .	15,996,555
Interest	3,144,120	129,235,498
Total expenditure	$77,055,120	$702,907,840

The increase in expenditure for the first five items is over one hundred millions. While the population increased twenty-two and six-tenths per cent, the expenditure of the country increased one hundred and seventy-three per cent; and if we add to this the disbursements incident to the war debt, we find the annual expenditures nearly decupled.

Previous to 1860, as we have seen, the excise had been viewed as a sort of fiscal reserve, only to be brought into action in case of urgent necessity; but at

the termination of the Civil War, in view of the burden of indebtedness which it had entailed, it became apparent that the earlier resources were no longer adequate to satisfy the larger fiscal needs of the country. The war had, moreover, induced a more generous view of the Constitution, and the conservative hostility which had prevented the utilization of federal powers during the long tenure of the Democratic party no longer existed; while the subsequent inclination of the government to engage in all sorts of expenditure for various internal purposes rendered the utilization of inland sources as a portion of the permanent fiscal service a necessity. The reduction in expenditure between the years 1866 and 1870 rendered it possible to dispense with nearly all the extraordinary war taxes, and to concentrate the system upon the broad and elastic basis of consumption. The income tax was retained until 1872, as were the bank taxes, and several unimportant duties on manufactured products. In 1870 the receipts from these sources were as follows: —

Spirits	$55,581,599.18
Tobacco	31,350,707.88
Fermented liquors	6,319,126.90
Banks and bankers	4,419,911.13
Gross receipts	6,894,799.99
Sales	8,837,394.97
License taxes	9,620,960.26
Income	37,775,873.62
Legacies	1,672,582.93
Successions	1,419,242.57
Articles in schedule A	907,442.09
Passports	22,756.00
Gas	2,313,417.37
Sources not elsewhere enumerated	728,105.30
Penalties	827,904.72
Adhesive stamps	16,544,043.06
TOTAL	$185,235,867.97

The suitableness of distilled and malt liquors and tobacco for taxation is recognized by nearly every civilized country, and it is the uniform practice of European governments to derive from them the largest possible revenue consistent with efficiency of administration. Of well-nigh universal consumption as they are, socially harmful in their effects, and non-essential to the comfort and well-being of a people, the payment of the taxes upon whiskey, beer, and tobacco may be viewed as a sum abstracted from the surplus fund of individual income. Furthermore, such taxes are but little obstructive of industrial freedom, and there is no evidence that even the highest rate imposed has ever proven productive of any very general discontent. From the mass of the people the cry for free whiskey and free tobacco meets no answering response; and in the past such agitation has been largely of a political character, for the purpose of distracting attention from an increase in the tariff rates, or an attempt to reduce a possible surplus in the Treasury.

Since 1868 the history of the taxation of these subjects has been quite uneventful. The reduction of the rate on distilled spirits to fifty cents a gallon[1] was accompanied with results most phenomenal. It is possibly too much to ascribe the subsequent increase in the revenues and improvement in their collection wholly to the reduction of the rates; for changes in the method of administration were also introduced, which greatly simplified collections, and rendered evasion by the ordinary methods well-nigh impossible. Since this time all taxes, specific, ad valorem, and license, have been col-

[1] By Act of July 20, 1868.

lected by means of stamps, affixed to the packages containing the commodity or displayed in the place of business. The specific tax of fifty cents on whiskey, with the subsidiary capacity tax, remained in force from July, 1868, to August, 1872, during which period the tax was assessed upon an average production of 67,000,000 gallons, which yielded an average annual revenue of $34,000,000, indicating an average annual per capita consumption of 1.65 gallons.

By the same Act the rates upon manufactured tobacco and cigars were placed as follows: —

Snuff	$0.32 per pound.
Chewing and other tobacco prepared by hand,	.32 "
Smoking tobacco	.16 "
Cigars	5.00 per 1000.
Cigarettes	1.50 "

Alterations were also made in the method of assessment. Instead of the tax being collected after removal from the place of manufacture and sale, the duty from this time on was prepaid by means of soluble stamps,[1] placed upon the package at the place of manufacture. Goods were required to be placed in certain forms of packages, which were to indicate the manufacturers' name, place of manufacture, trade-mark, contents and weight of package, etc. Itemized returns were also required from the producer in regard to his business. Failure to comply with these requirements rendered the producer liable to heavy penalties, as did any attempt to place untaxed goods on the market by a dealer. By

[1] The stamps were printed in fugitive ink, which disappeared when washed for the purpose of re-use.

the same Act existing taxes on mineral or illuminating oils and refined petroleum were repealed.

The revenues from tobacco immediately responded to the change. In 1868 the receipts were $18,729,000. In 1869 they rose to $23,430,707, a gain of four and three-quarter millions. Again, in 1870 they increased to $31,350,707, and in 1871 to $33,578,907. Fraudulent evasion of the tax was greatly diminished. Some little loss did occur through the refilling and re-use of stamped packages, and the improper classification of manufactured tobacco. It was easily possible for producers to take advantage of the difference of rates on chewing and smoking tobacco to place the former on the market at rates applicable only to the latter; and it was difficult to impute or prove fraud, or to correct the evil, save by a uniform rate, which change was later adopted.

But, despite the gratifying showing of the revenues, agitation was soon renewed for change. The profits previously secured by speculators and producers from legislative changes were too sweet to be willingly relinquished; and Congress was not deaf to the proposals for an increase of duties, by which gains were legislated into the pockets of speculators by increasing the rate without rendering it applicable to stock in bond. At the same time temperance agitators, who viewed a high rate on whiskey and tobacco as advisable on sumptuary grounds, advocated an increase in the duties, thinking it would serve as a deterrent to their use. In 1872, in response to this pressure, the rate upon whiskey was changed from the mixed one then prevailing, the barrel and capacity tax being repealed, while the specific rate was increased by twenty cents or to seventy cents per

gallon. The change was largely an administrative one, as the several duties then prevailing had aggregated between sixty-five and seventy cents per gallon.

By the same measure all manufactured tobacco, whatever its value or use, was rendered dutiable at a uniform rate, the duty up to 1875 being twenty cents per pound.[1] While this was equivalent to a reduction of six cents per pound, or of $22\frac{1}{3}$ per cent on the average rate for the two preceding years, the diminution in receipts from tobacco for the year 1873 was but little over one million dollars, while the increase in tax-paid production was over nineteen and one-half million pounds, a result traceable in large part to the fact that unmanufactured tobacco under the new law was taxed at substantially the same rate as the manufactured article, whereas it had formerly been practically exempt.

These changes were uniformly in the line of improvement; for while it is to be acknowledged that there is some injustice in the taxation of any article like tobacco, whose value varies so widely, at a uniform rate, experience has shown that assessments are likely to be so arbitrary that a specific rate is preferable to an ad valorem one, for the latter offers great opportunities for fraudulent practice, false swearing, and complications in valuation.

Again, in 1875, the rate on spirits was advanced to ninety cents per gallon, where it remained unaltered until 1894. In the taxation of the latter article the experience of these years is marked by phenomena similar to those of the war, although less monstrous, and brought home to officials high in the government service. It

[1] When it was again increased to twenty-four cents per pound.

is not true, however, as is frequently asserted, that the frauds disclosed in 1875 were due to the increase in the rates; for, although discovered immediately after the passage of the Act of that year, they were traceable to complicity and conspiracy of officials, and had been in existence for many years previous to the change. That the increase of the rate to ninety cents was a source of gain to speculators there is no doubt, for the new duty was not made operative on stock in bond. During the three months previous to the date when the increased rate went into operation, there was made and stored sufficient spirits to cause a loss to the revenues of $1,400,000. This loss was but temporary, however; and from this time on down to the present day the revenues from this source have steadily increased in amount, and there is no reason to suppose that the tax was not as universally collected as under the earlier and lower rate.

With the general revival of trade which set in during the years immediately preceding 1880, the receipts from the several sources of internal revenue manifest a marked improvement. Beginning with 1878, they increase from $110,000,000 in that year to $124,000,000 in 1880, to $135,000,000 in 1881, and to $146,500,000 for the fiscal year 1882. At this time there remained, as a heritage of the war, taxes upon the following subjects, which produced for the fiscal year 1882 the following sums: —

Friction matches	$3,272,258.00
Patent medicines, perfumery, etc.	1,978,395.56
Bank checks	2,318,155.14
Bank deposits	4,007,701.98
Savings-bank deposits	88,400.47
Bank capital	1,138,340.87
Savings-bank capital	14,729.38
	$12,818,281.40

At the same time taxes were collected by the Treasurer of the United States from national banks as follows: —

On national-bank deposits	$5,521,927.47
" national-bank capital	437,774.90
Collections from national banks	$5,959,702.37

making a total collection of $18,777,983.77.

As early as 1880 the Commissioner of Internal Revenue had advised the repeal of all these taxes, and reiterated his suggestion two years later,[1] when he further advocated an abatement of forty per cent in the special license charges then existing upon rectifiers, wholesale and retail liquor dealers, and tobacconists, from which an additional reduction in the revenues of three million dollars was expected.

The act of March, 1879, had reduced the rate on manufactured tobacco by one-third, or from twenty-four to sixteen cents per pound; and a corresponding reduction in the rate on cigars would cause a further diminution in the revenues of $6,746,000, which the commissioner also recommended.

These suggestions were substantially followed[2] in the abolition of all adhesive stamps imposed on matches, proprietary medicines, perfumes, and bank checks, the abatement taking effect July 1, 1883. The duties on bank deposits and capital ceased at the beginning of the same calendar year; while the rates on tobacco in all its forms, as well as the special license taxes, were reduced fifty per cent. The loss to the revenue from these com-

[1] Report on Finances, 1882, p. 70. [2] Act of March 3, 1883.

bined abatements was variously estimated at from forty to forty-five millions, including the $6,000,000 collected from national banks by the treasurer. The loss fell much short of this estimate, however, the total decrease for 1884 being less than $23,000,000, a considerable gain being manifest in spirits and other sources. The chief loss lay in tobacco, from which the receipts fell from $47,391,000 in 1882, and $42,104,000 in 1883, to $26,062,000 in 1884. Inasmuch as the collections of 1882 were made under the old rate entirely, and those of 1884 wholly under the new one, it shows a falling off of $21,229,000, or nearly forty-five per cent. When it is borne in mind that population was increasing at the rate of one and a quarter millions per year, it would seem to indicate that the consumption of tobacco was but little affected by the tax-rate; for the increase in annual consumption after the reduced rate, as indicated by removal from bond, was but three and one-half million pounds, the total withdrawals being less than the average quantity withdrawn for several preceding years at double the rates. At the same time a perceptible increase in the number of firms engaged in tobacco manufacture was remarked,[1] a fact which seems to indicate the tendency of a high tax-rate to concentrate the business into a few hands.

In 1890 another reduction of twenty-five per cent was made in the rates upon snuff, chewing and smoking tobacco, while all special license taxes upon the sale of tobacco were repealed.[2]

The total receipts from tobacco in all its forms for

[1] Report on Finances, 1885, p. 31. [1] Act of Oct. 1, 1890.

1893 were about $32,000,000, a sum which would have approximated $60,000,000 had the taxes existing in 1882 been allowed to remain unchanged. For the same year, the per capita revenue collected in the United States from this subject was but forty-eight cents, as against ninety cents in 1882, and as opposed to $1.71 in France, and $1.50 in Great Britain. Manifestly the revenues from this source are susceptible of increase. In recent years the growth in the consumption of tobacco has been phenomenal. In 1892 the per capita consumption of smoking and chewing tobacco was four pounds, while the number of cigars and cheroots returned for taxation was 4,548,799,417. As compared with other countries, the consumption of tobacco in America is about two and a half times as great as in England and France, slightly in excess of that of Holland and Belgium, and somewhat less than that of Germany.

The tax upon malt liquors has remained practically unchanged since the organization of the system in 1862, namely, at $1.00 per barrel of 31 gallons.[1]

The following tables exhibit in detail the results of the experience which has been portrayed in the past chapter, showing, for distilled spirits:[2] —

[1] In 1886 special license and specific taxes were imposed on the manufacture and sale of oleomargarine; but, as these duties were protective in character, the revenue features being merely incidental, they have not been considered in detail in the text of the essay.

[2] These tables are taken from Letter of Hon. David A. Wells to Hon. John J. G. Carlisle, Secretary of Treasury, July 8, 1893, published in Report of Secretary of Treasury, 1893, p. 1100. They were prepared from official data.

1st. The Population of the Country for each Successive Fiscal Year from 1870 to 1893, inclusive. 2d. The Quantity of Gallons of Spirits annually taxed. 3d. The Average per Capita Consumption for each Successive Year. 4th. The Amount of Revenue annually collected. 5th. The Average Annual Revenue, or Tax per Capita. 6th. The Annual Tax per Gallon. 7th. The Average Tax per Gallon.

YEAR ENDING JUNE 30—	POPULATION.[1]	QUANTITY TAXED.	QUANTITY PER CAPITA.	REVENUE.	REVENUE PER CAPITA.	TAX PER GALLON.	AVERAGE TAX PER GALLON.
		Gals.	*Gals.*	*$.*	*$.*	*Cents.*	*Cents.*
1870 . . .	38,558,371	78,490,198	2.03	39,245,099	1.02	50	50
1871 . . .	39,555,000	62,314,628	1.58	31,157,314	.79	50	50
1872 . . .	40,596,000	66,235,578	1.63	33,117,788	.82	50	50
1873 . . .	41,677,000	65,911,141	1.58	43,131,064	1.03	{50 / 70}	65.44
1874 . . .	42,796,000	62,581,562	1.46	43,807,093	1.02	70	70
1875 . . .	43,951,000	64,425,911	1.47	46,877,938	1.07	{70 / 90}	72.76
1876 . . .	45,137,000	58,512,693	1.30	51,390,490	1.14	{70 / 90}	88.58
1877 . . .	46,353,000	58,043,389	1.25	52,671,291	1.14	{70 / 90}	89.97
1878 . . .	47,598,000	50,704,189	1.07	45,626,533	.96	{70 / 90}	89.99
1879 . . .	48,866,000	53,025,175	1.09	47,709,464	.98	{50 / 70 / 90}	89.98
1880 . . .	50,155,783	62,132,415	1.23	55,919,119	1.11	{70 / 90}	90
1881 . . .	51,316,000	69,127,206	1.34	62,214,127	1.24	{70 / 90}	90
1882 . . .	52,495,000	71,976,398	1.37	64,778,756	1.23	{70 / 90}	90
1883 . . .	53,693,000	76,762,063	1.43	69,085,856	1.22	90	90
1884 . . .	54,911,000	79,616,901	1.45	71,655,211	1.30	90	90
1885 . . .	56,148,000	69,158,025	1.23	62,242,221	1.23	{70 / 90}	90
1886 . . .	57,404,000	70,851,355	1.23	63,766,219	1.11	90	90
1887 . . .	58,680,000	67,380,391	1.15	60,642,351	1.03	90	90
1888 . . .	59,974,000	71,565,486	1.19	64,408,937	1.07	90	90
1889 . . .	61,289,000	77,163,529	1.25	69,447,175	1.13	90	90
1890 . . .	62,622,250	85,043,336	1.35	76,539,002	1.22	90	90
1891 . . .	63,975,000	88,473,437	1.38	79,626,093	1.24	90	90
1892 . . .	65,520,000	95,045,787	1.45	85,541,209	1.31	90	90
1893 . . .	66,826,000	99,145,889	1.48	89,231,300	1.34	90	90

[1] Population for 1870, 1880, and 1890 from census; other years calculated by the actuary of the Treasury Department.

A similar table for fermented liquors and tobacco shows as follows: —

YEARS.	POPULATION.	BEER.					TOBACCO.	
		QUANTITY TAXED.	QUANTITY PER CAPITA.	REVENUE COLLECTED FROM BARREL TAX.	REVENUE PER CAPITA.	TAX PER BARREL OF 31 GALLONS.	REVENUE COLLECTED FROM ALL SOURCES.	REVENUE PER CAPITA.
		Gals.	*Gals.*	*$*	*$*	*$*	*$*	*$*
1863	33,365,000	62,105,375	1.86	1,558,083	.05	{ 1.00 / .60 }	3,097,620	.09
1864	34,046,000	97,382,811	2.86	2,223,719	.07	{ .60 / 1.00 }	8,592,099	.25
1865	34,748,000	113,372,611	3.26	3,657,181	.11	1.00	11,401,373	.33
1866	35,469,000	158,569,340	4.47	5,115,140	.14	1.00	16,531,008	.41
1867	36,211,000	192,429,462	5.31	5,819,345	.16	1.00	19,765,148	.55
1868	36,973,000	190,546,553	5.15	5,685,663	.15	1.00	18,730,095	.51
1869	37,756,000	196,603,705	5.21	5,866,400	.16	1.00	23,430,708	.62
1870	38,558,371	203,813,127	5.29	6,081,520	.16	1.00	31,350,708	.81
1871	39,555,000	239,948,060	6.06	7,159,740	.18	1.00	33,578,907	.85
1872	40,596,000	268,442,237	6.61	8,009,969	.20	1.00	33,736,171	.83
1873	41,677,000	298,633,013	7.16	8,910,823	.21	1.00	34,386,303	.83
1874	42,796,000	297,627,807	6.95	8,880,829	.21	1.00	33,242,876	.78
1875	43,951,000	293,033,607	6.66	8,743,744	.20	1.00	37,303,462	.85
1876	45,137,000	306,972,912	6.80	9,159,675	.23	1.00	39,795,340	.88
1877	46,353,000	304,111,860	6.56	9,074,305	.20	1.00	41,106,547	.89
1878	47,598,000	317,485,001	6.67	9,473,360	.20	1.00	40,091,755	.85
1879	48,866,000	344,195,604	7.04	10,270,352	.21	1.00	40,135,003	.82
1880	50,155,783	413,760,441	8.25	12,346,077	.25	1.00	38,870,140	.77
1881	51,316,000	443,641,868	8.65	13,237,700	.26	1.00	42,854,992	.84
1882	52,495,000	525,514,635	10.01	15,680,678	.30	1.00	47,391,989	.90
1883	53,693,000	550,494,652	10.25	16,426,050	.31	1.00	42,104,250	.78
1884	54,911,000	588,957,189	10.73	17,573,722	.32	1.00	26,062,400	.48
1885	56,148,000	594,764,543	10.59	17,747,006	.32	1.00	26,407,088	.47
1886	57,404,000	642,038,923	11.18	19,157,612	.33	1.00	27,907,363	.49
1887	58,680,000	716,767,306	12.21	21,387,411	.36	1.00	30,108,067	.51
1888	59,974,000	765,086,789	12.77	22,829,202	.38	1.00	30,662,432	.53
1889	61,289,000	778,715,443	12.71	23,235,863	.38	1.00	31,866,861	.52
1890	62,622,250	854,420,264	13.64	25,494,798	.41	1.00	33,958,991	.54
1891	63,975,000	944,823,952	14.77	28,192,327	.44	1.00	32,796,271	.51
1892	65,520,000	986,352,916	15.05	29,431,498	.45	1.00	31,000,493	.47
1893	66,826,000	1,071,183,827	16.03	31,963,743	.48	1.00	31,889,712	.48

RECENT LEGISLATION.

For upwards of a decade previous to 1893, America, in the fulness of her resources, presented to the world of finance the unique and almost isolated spectacle of a nation with revenues so redundant as almost to defy expenditure or exhaustion; of successive administrations whose efforts were directed, not in devising means by which revenues could be collected with the least possible friction and inequality, but rather in spending almost unwelcome revenues, in order that their collection might be continued; and of a party in power, to whom the taxing machinery was an engine to be employed primarily for the support of an industrial policy, rather than for supplying the legitimate demands of the state.

The fruition of this policy was a deficit in the Treasury. Not only has the expenditure imposed by recent Congresses been in excess of current revenues, but the party called into power in 1892, after many years of opposition, has carried into effect a policy of tariff revision which has greatly increased the deficiency. It is to be admitted that such a reduction in the rates as has been effected by recent legislation may eventually lead to the opposite result; for our experience during the reduction of the revenue system subsequent to the war shows that an increase in the revenues is often most surely obtained by a diminution of the charges, especially those which bear upon consumption.

English experience displays this apparent paradox even more strikingly than does our own. In 1842, when Robert Peel, by one of those transcendent strokes of genius which characterized his public life, undertook

the reform of the revenue system, the budget had for several years shown a deficit. From 1837 to 1842 the annual expenditure had exceeded the revenues by nearly forty million dollars. The trouble had become chronic; and the remedy applied had been to increase the rates, with the uniform result that the revenues diminished rather than increased. With the reforms inaugurated by Peel, however, which were looked upon as chimerical in the extreme, the receipts began to recover, and from that time down to the later modifications of the revenues manifested a steady and continuous increase.

The same results may follow the modifications in rates introduced by the Democratic party; but for some years a deficiency may be expected.

Shortly after its advent to power in 1893, the new administration found itself confronted with an unforeseen commercial depression, which caused a further marked reduction in receipts, traceable to diminished demand for taxable commodities. For upwards of two years now the Treasury has been confronted with an actual or approximate deficiency. Expenditures have not been greatly diminished, while the customs and internal revenue receipts have shown a marked falling off. In the report of the Treasury Department for 1893 the estimated shortage for the fiscal year 1894 was placed at twenty-eight millions. As a matter of fact, it was much more than this; and even at the present time, with the assistance of the measures extorted from the reluctant Fifty-third Congress, these revenues show but slight tendency to improve.

This condition of affairs has been viewed as but temporary, and traceable to the existing suspension of trade

and general stagnation of industry, which a revival of business may be depended upon to rectify. But the improvement has not come. Moreover, it is impossible to calculate, with any degree of exactitude, on the effects of a depression upon the revenues; for our experience during the decade subsequent to the crisis of 1873 shows that a depression may make its influence manifest for years after the stringency itself has passed away.

This deficiency, together with the reorganization of the tariff charges, rendered recourse to other sources necessary; and the problem proved a knotty one for solution. Two avenues of relief lay open. Either new taxes, as the income, corporation, stamp, or license duties, might be reimposed, or the rates upon those objects already upon the schedule, as whiskey, malt liquors, and tobacco, might be increased. Experience has demonstrated that the best fiscal policy always advises that taxation should be so devised as to allow the largest possible freedom to the individual and the greatest liberty to industry, and that this is best attained by a concentration of the excise upon the smallest number of objects consistent with efficiency of administration. Our experience since the war has led to well-nigh universal approval of the taxes upon whiskey, malt liquors, and tobacco; and few will contend that the rates upon these subjects are as high as they will bear. The tax upon tobacco has been repeatedly reduced, and is now lower than in almost any other country, while the duty upon malt liquors is but twenty per cent ad valorem, or about one-fifth of a cent per glass. As regards distilled spirits, Mr. Wells has maintained that the old rate (90

cents per gallon) was the maximum one which could profitably be imposed, and supported this contention by reference to the humiliating experience during the years extending from 1864 to 1868, when the $2.00 rate obtained. But the conditions of production, as well as of administration, have changed radically since that time. No longer is the service raw and untrained. Officials have become familiar with the laws. Alterations are made but infrequently, and the means for the detection of fraud and illegal distillation have greatly improved. Moreover, the recent organization and successful conduct of the so-called "whiskey trust" places in the employ of the government a most effective agency for the prevention of illicit distillation; for it is manifestly to the interest of this combination to prevent illicit distillation rather than encourage it, while the eventual result of this concentration of the business into a few hands will be to localize it, and render the collection of the tax a simple matter. The area of illicit production is now confined within the mountainous districts of the South, where the output is comparatively small, and does not enter into the general market. Furthermore, the capacity of these "moonshine" stills is inconsiderable, and the quality of the article produced inferior, so that there is little danger of it entering into competition with the tax-paid whiskey.

It was therefore believed that the rate upon distilled spirits could be materially increased without loss in the quantity returned, while the revenues would be increased by many millions of dollars. Such was the plan of the Secretary of the Treasury, who recommended, in his first annual report, that the deficiency then existing and

thereafter to exist be met by an increase of the rate upon this subject from ninety cents to one dollar per gallon; that the duties upon cigars and cigarettes be advanced; and that new taxes be imposed upon playing-cards, cosmetics, perfumeries, legacies, and successions; and that a duty of two per cent be placed upon all incomes derived from investments in the stocks and bonds of private corporations and joint-stock companies.[1] From these combined sources he felt that an increase of fifty millions of dollars would accrue to the Treasury in 1895.

In support of his proposal for an income tax, he very truly says: "It is a generally recognized fact that capital in the form of money, bonds, and other evidences of debt, does not usually, by reason of its intangible and transitory nature, bear its due proportion of the burdens of taxation under the revenue laws of the several States and municipalities, as compared with real estate and visible personal property; and while no discrimination should be made against it, whether it be represented by corporate or other investments, there appears to be no good reason why the contributions for the support of the public service generally should not be equalized as nearly as possible by including this kind of property in the federal revenue system."[1]

The proposal of the secretary contemplated an indirect income tax; and by this plan many of the more objectionable features of that tax would be eliminated, for the individual citizen would be relieved from the personal visits of the assessor, while the possibilities of evasion would be diminished. By this arrangement all

[1] Report on Finance, 1893, p. 82. [2] *Ibid.*, p. 83.

taxes would have been collected by means of stoppage at the source, the corporations deducting the tax before dividends were announced. The duty falls upon the eventual payer just the same as if collected from him in person, without the necessity of that scrutiny into his private affairs which seems to be inseparable from the income tax. During the war this form of collection was applied to a large class of corporations, and in the fiscal year 1865 over forty per cent of the income tax was turned into the Treasury through the instrumentality of such corporations. With it extended to all dividend-paying companies, even with the rate at two per cent, it is not too much to believe that the yield would have exceeded the estimate of the secretary, who thought it capable of producing thirty millions of dollars.

But Congress acceded to the report in part only. As to the propriety of increasing the rate upon distilled spirits, there was but little diversity of opinion; but the proposals for the rehabilitation of the income tax aroused the most bitter opposition, and its fate for a long time hung in the balance. The deficiency for the fiscal year 1894 amounted to over forty-three millions, instead of twenty-eight millions as estimated by the secretary; and it was soon demonstrated that this sum would be nearly doubled ere the close of the calendar year. Moreover, the proposed revision of the tariff was expected to reduce the revenues to the extent of seventy-five millions more. So much of this deficiency as was but temporary was to be met by loans; but the Committee of Ways and Means, in its report to the House, approved of the recommendations of the secretary in so far as they related to distilled spirits, playing-cards, and incomes, except

that the tax upon incomes was to be collected from individuals as well as corporations.[1]

In Congress the debate upon the proposed measure wore on for over seven months, and its fate for a long time was a matter of conjecture; and eventually it became a law without the signature of the President, who objected to the tariff schedule.[2]

The provisions of the measure relating to incomes were modelled upon the later war legislation. They provided that the tax should be first assessed on or before the first Monday in March, 1895, computed on the incomes received during the year 1894. The duration of the measure was limited to five years. All persons having an income in excess of thirty-five hundred dollars were required to make a verified return to the collector, as were all persons acting in a fiduciary capacity; and in estimating the income of any person for this purpose there was to be included: (1) all interest received upon stocks, bonds, and other securities, save such bonds of the United States as were exempt from federal taxation; (2) all profits realized within the year from sales of real estate purchased within two years previous to the close of the year for which income is estimated; (3) interest received or accrued upon evidences of indebtedness, whether paid or not, if good and collectable; (4) the amount of all premium on bonds, stocks, etc.; (5) the amount of sales of live stock, sugar, cotton, wool, butter, cheese, pork, beef, mutton, or other meats, hay and grain, or other vegetable, or other productions, being the

[1] See report of committee, Fifty-third Congress, second session, House of Representives, No. 276.

[2] Act of Aug. 28, 1894.

produce of the estate, less the amount expended in the raising or purchase of such produce, as well as any part consumed directly by the family; (6) money, and the value of all personal property acquired by gift or inheritance; (7) all other gains, profits, and income from any source whatsoever, except so much as has been already taxed through the disbursing officer of the government or of a private corporation. In computing such returns, however, the following deductions were also permitted in addition to the minimum exemption of four thousand dollars: (1) the necessary expenses actually incurred in carrying on any business, occupation, or profession; (2) all interest due or paid within the year on existing indebtedness; (3) all national, State, county, school, and municipal taxes; (4) losses actually sustained during the year incurred in trade, or arising from fires, storms, or shipwreck, and not compensated for by insurance or otherwise; (5) debts ascertained to be worthless. No deductions were permitted for expenditures for improvements. In case the taxable neglected or refused to make such return, the collector was authorized to make up a list from the best information available, and to add thereto fifty per cent as a penalty, and in case of fraudulent return, one hundred per cent. Appeal therefrom was permitted to the collector of the district, and from him to the Commissioner of Internal Revenue.

The principle of stoppage at the source was more widely extended in this measure than ever before; and all banks, trust companies, saving institutions; fire, marine, life, and other insurance companies; railroads; canal, turnpike, telephone, telegraph, express, electric-lighting, gas, water, street railway, companies; as well

as all other corporations or associations doing business for profit in the United States, no matter how created or organized (but not including partnerships), — were directed to deduct the tax of two per cent upon all profits and net incomes before the payment of the same to stockholders or additions made to surplus. And net profits for the purpose of estimating the tax were to include any amounts paid to stockholders, or carried to the account of any fund, or used for improvements or other investments.[1] The same principle was applied to federal salaries in excess of $4,000, as well as any salaries paid by private corporations to their employees in excess of that sum.

The Act departed from earlier legislation in yet another and very important particular; for it forbade under heavy penalties the divulgement by the officers of the revenue of the incomes, losses, or returns of any taxable, whether a private corporation or an individual.

All returns were to be listed upon blanks provided for the purpose, on or before the first Monday in March, and were to be paid before the first day of July of each year.

The law doubtless contained many imperfections, and in many places was so worded as to cause irritation to the payer, and to open wide the door for evasion, fraud, and false swearing. It reposed great powers, moreover, in a politically appointed service. These imperfections

[1] The Act specifically exempted all organizations of a religious, charitable, or educational character, fraternal or beneficial orders, building and loan associations, and savings-banks and insurance companies of a strictly mutual character. Nor did it apply to States, counties, or municipalities.

were particularly noticeable in the deductions allowed. For instance, as to what are "necessary expenses incurred in carrying on business," "losses actually sustained during the year," "debts ascertained to be worthless," there lay a possibility of wide divergence of opinion. The provision that corporations should deduct the tax from the salaries of their employees was absolute, notwithstanding the fact that they might have been entitled to deductions which would bring their incomes below $4,000. Corporations were likewise compelled to pay the tax upon their net earnings, irrespective of whether the recipient of the dividends had an income of $4.00 or $40,000. Moreover, the collector was granted the widest latitude and most unusual powers. He was empowered to pass upon interest due and payable; to increase the return of the individual, subject, however, to appeal; and to make up a taxable's income from the best information available. These but indicate some of the difficulties which would have beset the administration of the measure, as well as the individual honestly desirous of making a fair return. Had we a trained service, these objections would lose much of their seriousness; but, with collectors appointed for partisan service rather than merit, there is reason to believe that this power would have become a means of unjust discrimination. It certainly offered great opportunities for corrupt collusion with taxpayers.

But these objections were but incidental, and easily corrected. Was the tax defensible on broad grounds of public policy, justice, and expediency, or did it so contravene the American spirit as to be untenable?

The desire to disguise taxes seems to inhere in democracy and government by party, and leads to the choice of indirect taxes rather than direct ones, whose incidence is more palpable, and which induce irritation and party strife. At the present time the annual taxes collected for federal purposes approximate $313,000,000. Of this sum over $152,000,000 is derived from customs receipts, over $143,000,000 from internal revenue, and about $18,000,000 from other miscellaneous sources.[1] Of all the revenues collected for meeting the annual expenses of the government, less than two per cent is derived exclusively from taxes upon realized wealth; over ninety-eight per cent falls upon consumption, and is taken mainly from the earnings of those who depend upon small incomes for their livelihood.

In the adjustment of the federal budget, the question of incidence seems never to have been taken seriously into account. The problem is one of party expediency, the aim being to raise the revenues where they will cause the least outcry. Our financial leaders have not had "a mixed and joint regard for the two great descriptions of taxation, the attractive sisters," the direct and indirect taxes, but have wooed the latter to the utter neglect of the former.

How unequal are the resultant burdens of this discrimination appears from a contemplation of the incidence of such taxes as the customs duties and those levied on whiskey, malt liquors, and tobacco. Such taxes are in their operation regressive.[2] They bear with

[1] These are the receipts for 1895.

[2] "A tax is said to be regressive when the rate per cent increases as the property decreases." — ELY.

greatest severity upon those least able to sustain them. Consumption of staple commodities is not in proportion to wealth or income. Taxes paid thereon are in like manner per capita rather than proportional. Indirect taxes, such as the duties on liquors and tobacco, are in effect exaggerated poll taxes, for their incidence is not only without regard to the ability of the payer to sustain them, but they grow unduly with each intermediate transfer, and take and keep from the pockets of the payer much more than they turn into the Treasury.

During the period extending from 1872 to 1894, the federal government collected from customs and inland sources approximately $7,000,000,000, of which $4,150,630,000 was produced by the customs, and $2,793,930,000 by the excise. The collections from sources which might be termed direct do not merit mention. Surely there is no crying hardship, no glaring injustice, in compelling vested wealth and those enjoying large incomes to contribute a small percentage of the surplus for the support of the state, when all other taxes discriminate against those having small and precarious means of livelihood.

Were our State and local taxes properly devised, these inequalities would be in large part corrected. But the reverse is more usually true. An examination of the assessors' books of any State or city shows the greatest inequality in the ratio of assessment, and the discrimination is always against the small holder. Not only is his realty rated higher, but necessarily his tangible personalty is returned more fully and completely; for by crude methods of assessment it is likely to be rated at its approximate value, rather than at a fraction

thereof, as is the case of the richer members of the community.

When a comparison is made between rural and urban districts, similar conditions appear. Intangible personalty is returned in a ratio inverse to population, when, as a matter of fact, the great bulk of stocks, bonds, and credits are to be found in our cities, where from one-half to nine-tenths of it escapes. In the country districts, on the other hand, every man is practically an assessor, and is interested in the return of his neighbor. Fuller and more complete returns are secured, and not only tangible, but intangible, personalty is scheduled at approximately its full value.

The substantial result of both national and local systems of taxation is undue pressure upon small holdings and incomes, and the disproportionate shifting of the burdens of government upon those least able to bear them. We have departed a long way from the ideal, and it makes little difference what be our canon for the proper distribution of taxes; the present arrangement is unjust in its incidence, cumulative in its tendencies, and regressive in its principle.

The income tax stands as a sort of equalizer. Theoretically satisfying the demands of equality, it should occupy a position in any complete and well-ordered fiscal scheme to equalize the burdens of the indirect taxes of our federal system, as well as the inequalities induced by legislation, and the faulty methods of assessment in vogue in our States. It not only reaches vested incomes from privileges, as rent, but it demands a share of the revenues of talent and ability, as well as of such intangible forms of wealth as escape local officials by

faulty assessment, or by migration from locality to locality. Nor can income be hypothecated at assessment days, and the duty avoided by the incurrence of liabilities, as can the tax on personalty. Income is usually a definitely ascertainable amount, and, by the honest-intentioned, the easiest of taxes to return. Rarely would it be necessary to examine the books of a person to verify returns, and the government owes no obligation or consideration to the dishonest taxable endeavoring to elude the duties of citizenship. Moreover, it demands contribution from individuals in accordance with ability, in proportion to the revenues enjoyed under the protection of government. The income tax would, moreover, induce a closer scrutiny of government expenditures, and a more careful surveillance of public servants. Indirect taxation and extravagance have ever gone hand in hand. When government touches the pocket of the citizen directly, however, it induces a patriotic inspection of party stewardship, and a more watchful observance of its action.

Measured by broad principles of equality and political expediency, the income tax is demanded by many considerations of public welfare. Does it bear examination equally well from a practical, fiscal point of view? If it fails in administrative features, if too costly of collection, if it cripples industry, or is unjust in its incidence, it can have no permanent claim to public favor. And upon no point has the income tax been assailed so vehemently, or denounced so bitterly, as regards its administrative features. It is held to invade the sanctity of a man's most personal affairs, to lay open to the inquisitive eye of the official, and perchance the public,

his income, and, in case of inspection, his business methods as well. It is, in effect, said to be an inquisitorial tax *par excellence.* How little real force this objection has is seen from the ease with which the tax of 1894 was assessed. The large authority reposed in the collectors induced prompt and quite general compliance with the law, while the penal clauses for violation proved a tolerably thorough check to attempted evasion. Even with the tax assessable upon all save small incomes, it would be less inquisitorial than the returns required in any one of our States of personal property, returns which are usually open to public inspection. Those who urge this objection also fail to take note of the fact that in the collection of the taxes on distilled spirits, the government is the practical operator of the still, while in the taxation of malt liquors and tobacco the closest supervision is maintained.

Experience also shows the income tax to be the cheapest of taxes to collect. With the possible exception of the duties on corporations, which were collected by the internal revenue office at Washington direct from the payer, the income duty was one of the most economical of taxes which has ever been imposed. During the war, when the cost of returning the inland revenue was between three and four per cent, the estimated cost of the duty on incomes was not in excess of two per cent. The reason is plain; and this advantage would have been even more marked now than then, for the tax would have been collected mainly from corporations direct, at scarcely any cost.

THE CONSTITUTIONALITY OF THE INCOME TAX.

But however just and defensible the tax may have been, and however necessary to equalize the burdens of federal taxation, it was to be tried in another forum. Despite the fact that the meaning of Sect. 2, Art. 1, of the Constitution, which provides "that representatives and direct taxes shall be apportioned among the several States according to their respective numbers," had been interpreted uniformly and unanimously upon several different occasions, and despite the fact that the meaning of direct taxes within the Constitution, as fixed by judicial determination, seemed to be limited to taxes on land and the capitation tax, the constitutionality of so much of the measure of Aug. 28, 1894, as applied to incomes, was again raised. Three cases were brought to enjoin the Commissioner of Internal Revenue from collecting the tax, one in the District of Columbia, the other two in New York. Both the latter cases were appealed from the decision of the Circuit Court for the Southern District of New York, which had affirmed the law by a divided court. The cases were argued before the Supreme Court, March 7, 8, 11, 12, and 13, Attorney-general Olney and Assistant Attorney-general E. B. Whitney appearing for the government; and Messrs. Joseph H. Choate, W. D. Gurtrie, C. A. Seward, B. H. Bristow, David Willcox, Charles Steele, and Charles F. Southmayd for appellants; and Herbert B. Turner, J. C. Carter, W. C. Gulliver, and F. B. Candler for appellees.

Upon appeal, the exceptions to the ruling of the Circuit Court were as follows: *First*. That the Act im-

poses a direct tax in respect of the rents, issues, and profits of real estate, as well as of the income and profits of personal property, and not being apportioned, is in violation of Sect. 2, Art. 1, of the Constitution.

Second. That the law, if not imposing a direct tax, is nevertheless unconstitutional in that its provisions are not uniform throughout the United States, and do not operate with the same force and effect upon the subject of the tax wherever found; and in that it provides exemptions in favor of individuals and copartnerships, while denying all exemptions to corporations having similar income derived from like property and values, and provides for other exemptions and inequalities in violation of Sect. 8, Art. 1, of the Constitution.

Third. That the law is invalid so far as imposing a tax upon income received from State and municipal bonds.

Chief Justice Fuller delivered the opinion of the Court, and after reviewing the constitutional points involved, and the previous determinations of the Supreme Court, stated in part, as the opinion of the majority of the court, that it is established: That as taxes on real estate belong to the class of direct taxes, therefore any taxes on the rent or income of real estate, which is the incident of ownership, belong to the same class, and that, therefore, so much of the Act of Aug. 15, 1894, as attempts to impose a tax upon the rent or income of real estate without apportionment is invalid.

The Court was further of the opinion that the Act was invalid so far as it attempted to levy a tax upon the income derived from State or municipal bonds, or upon the salaries of judges of the courts of the United

States. As a municipal corporation is the representative of the State and one of the instrumentalities of the State government, the properties and revenues of municipal corporations are not the subjects of federal taxation, nor is the income derived from State, county, and municipal securities; since taxation on the interest therefrom operates on the power to borrow before it is exercised, and has a sensible influence on the contract, and therefore such a tax is a tax on the power of the States and their instrumentalities to borrow money, and consequently repugnant to the Constitution. And the decree of the Circuit Court was declared to be reversed in respect only of the voluntary payment of the tax on the rent and income of real estate, and that which was held by the trust companies in trust, and on the income from municipal bonds held or owned by them.

Upon each of the other questions argued at the bar, to wit: (1) whether the void provisions as to rents and incomes from real estate invalidates the whole Act; (2) whether as to the income from personal property as such the Act is unconstitutional as laying direct taxes; (3) whether any part of the tax, if not considered as a direct tax, is invalid for want of uniformity on either of the grounds suggested, — the justices who heard the argument were equally divided, and therefore no opinion was expressed. Dissenting opinions were delivered by Justices White and Harlan.[1]

By this decision the law was left in an emasculated condition, and its enforcement would have induced exag-

[1] Pollock *vs.* Farmers' Loan and Trust Co. *et al.*, 15 Supreme Court Reporter, pp. 673–717.

gerated injustice. Moreover, it introduced intricacies and complications in declaring incomes and assessing the tax which would have rendered it most difficult of collection and exceedingly vexatious to the payer, and would have rendered necessary countless legal proceedings for the determination of the meaning of the law.

Treasury officials had estimated the tax capable of producing between thirty and fifty million dollars, and the department estimated the amount involved in the opinion of the Court at from fifteen to twenty millions.

The argument was heard by an incomplete Court; and as the constitutionality of the entire measure had not been passed upon, permission was granted for a rehearing. This was later heard by a complete Court, and the law decided by a vote of five to four to be unconstitutional *in toto*. This opinion is in large part a review of the general issues involved; and as the decision rests largely upon historic grounds, we venture to give its substance.

The Chief Justice discussed the reasons for the constitutional provisions regarding direct taxation. The States have plenary powers of taxation, he said, but gave up the great sources of revenue from commerce, and retained the power of levying taxes and duties covering anything other than excises; but, in respect to the sources of revenue granted them, the range of taxation was further narrowed by the power granted the federal government over interstate commerce. While they granted to the federal government the power of apportioning direct taxation, they secured to themselves the opportunity to pay the amount apportioned to them, and to recoup from their own citizens in the most feasible way.

"The Constitution ordains affirmatively, he said, that representatives and direct taxes shall be apportioned among the several States according to numbers, and negatively that no direct tax shall be laid unless in proportion to the enumeration."

The opinion continued: —

"It is said that a tax on the whole income of property is not a direct tax, in the meaning of the Constitution, but a duty. . . . We do not think so. Direct taxation was not restricted in one breath, and the restriction blown to the winds in another."

The opinion next took up the argument that a tax on the general income of property is not a direct tax within the meaning of the Constitution; and on this point the Court held: —

"The Constitution prohibits any direct tax, unless in proportion to numbers as ascertained by the census; and, in the light of circumstances to which we have referred, is it not an evasion of that prohibition to hold that a general unapportioned tax imposed upon all property owners, as a body, for, or in respect of, their property, is not direct, in the meaning of the Constitution, because confined to the income therefrom? Whatever the speculative views of political economists or revenue reformers may be, can it be properly held that the Constitution, taken in its plain and obvious sense, and with due regard to the circumstances attending the formation of the government, authorizes a general unapportioned tax on the products of the farm and the rents of real estate, although imposed merely because of ownership, and with no possible means of escape from payment, as belonging to a totally different class from that which includes the property from whence the income proceeds?

"There can be but one answer, unless the constitutional restriction is to be treated as utterly illusory and futile, and the object of its framers defeated. We find it impossible to hold that a fundamental requisition, deemed so important as to be

enforced by two provisions, one affirmative and one negative, can be refined away by forced distinctions between that which gives value to property, and the property itself. Nor can we perceive any ground why the same reasoning does not apply to capital in personalty, for the purpose of income or ordinarily yielding income, and to the income therefrom. All the real estate of the country and all its invested personal property are open to the direct operation of the taxing power, if an apportionment be made according to the Constitution. The Constitution does not say that no direct tax shall be laid by apportionment on any other property than land; on the contrary, it forbids all unapportioned direct taxes; and we know of no warrant for excepting personal property from the exercise of the power, or of any reason why an apportioned direct tax cannot be laid and assessed, as Mr. Gallatin said in his report, when Secretary of the Treasury in 1812, 'upon the same objects of taxation on which the direct taxes levied under the authority of the State are laid and assessed.' . . .

"Nor are we impressed with the contention that, because in the four instances in which the power of direct taxation has been exercised, Congress did not see fit, for reasons of expediency, to levy a tax upon personalty, this amounts to such a practical construction of the Constitution, that the power did not exist, that we must regard ourselves bound by it. We should regret to be compelled to hold the powers of the general government thus restricted, and certainly cannot accede to the idea that the Constitution has become weakened by a particular course of inaction under it.

"The stress of the argument is thrown, however, on the assertion that an income tax is not a property tax at all; that it is not a real estate tax, nor a crop tax, nor a bond tax; that it is an assessment upon the taxpayer, on account of his money-spending power, as shown by his revenue for the year preceding the assessment; that rents received, crops harvested, interest collected, have lost all connection with their origin, and, although once not taxable, have become transmuted in their new form into taxable subject matter; in other words, that income is taxable irrespective of the source from whence it is derived. . . .

"If it were the fact that there had been no income tax law, such as this, at the time the Constitution was framed and adopted, it would not be of controlling importance. A direct tax cannot be taken out of the constitutional rule, because the particular tax did not exist at the time the rule was prescribed. . . . The power to tax real and personal property and the income from both, there being an apportionment, is conceded: that such a tax is a direct tax in the meaning of the Constitution has not been, and in our judgment cannot be, successfully denied; and yet we are thus invited to hesitate in the enforcement of the mandate of the Constitution, which prohibits Congress from laying a direct tax on the revenue from property of the citizen without regard to State lines. . . . We are not here concerned with the question whether an income tax be or be not desirable, nor whether such a tax would enable the government to diminish taxes on consumption and duties on imports, and to enter upon what may be believed to be a reform of its fiscal and commercial system. Questions of that character belong to the controversies of political parties, and cannot be settled by judicial decision. In these cases our province is to determine whether this income tax on the revenue from property does or does not belong to the class of direct taxes. If it does, it is, being unapportioned, in violation to the Constitution, and we must so declare. . . .

"We have considered the Act only in respect of the tax on income derived from real estate and from invested personal property, and have not commented on so much of it as bears on gains or profits from business, privileges, or employments, in view of the instances in which taxation on business privileges or employments has assumed the guise of an excise tax, and been sustained as such.

"Being of opinion that so much of the sections of this law as lays a tax on income from real and personal property is invalid, we are brought to the question of the effect of that conclusion upon these sections as a whole. . . . According to the census the true valuation of real and personal property in the United States in 1890 was $65,037,091,197, of which real estate with improvements thereon made up $39,544,544,333. Of course, from the latter must be deducted, in applying these sections, all un-

productive property, and all property whose net yield does not exceed $4,000 ; but even with such deductions it is evident that the income from realty formed a vital part of the scheme for taxation embodied therein. If that be stricken out, and also the income from all invested personal property, bonds, stocks, investments of all kinds, it is obvious that by far the largest part of the anticipated revenue would be eliminated, and this would leave the burden of the tax to be borne by professions, trades, employments, or vocations; and in that way what was intended as a tax on capital would remain in substance a tax on occupations and labor. We cannot believe that such was the intention of Congress. We do not mean to say that an Act, laying by apportionment a direct tax on all real estate and personal property or the income thereof, might not also lay excise taxes on business, privileges, employments, and vocations. But this is not such an Act, and the scheme must be considered as a whole.

"Being invalid as to the greater part, and falling, as the tax would if any part were held valid, in a direction which could not have been contemplated except in connection with the taxation considered as an entirety, we are constrained to conclude that Sects. 27 to 37 inclusive of the Act, which became a law without the signature of the President on Aug. 28, 1894, are wholly inoperative and void.

"The conclusions of the Court are as follows: *First.* We adhere to the opinion already announced that taxes on real estate being indisputably direct taxes, taxes on the rents or incomes of real estate are equally direct taxes.

"*Second.* We are of the opinion that taxes on personal property or on the income of personal property are likewise direct taxes.

"*Third.* The tax imposed by Sects. 27 and 37, inclusive, of the Act of 1894, so far as it falls upon the income of real estate and of personal property, being a direct tax within the meaning of the Constitution, and therefore unconstitutional and void, because not apportioned according to the representation, all those sections constituting one entire scheme of taxation are necessarily invalid.

"The decrees hereinbefore entered in this Court will be va-

cated. The decrees below will be reversed, and the cases remanded with instructions to grant the relief prayed." [1]

The decision is perhaps the most important that has been handed down by the Supreme Court in years. Not only may the limitations which it places upon the powers of Congress seriously cripple the Treasury in time of emergency, but, as in the Legal Tender decisions and the report of the Electoral Commission, it indicates the extraordinary powers which may be wielded by one man in determining the fundamental law of the land. The decision was reached by a vote of five to four on the final hearing. The judgment of one man upon a controverted point was enough to overthrow the uniform decisions of the same Court, as well as the settled conviction of Congress and the public for over a century. Without question Congress had accepted as settled the meaning of the Constitution in this regard, and had embodied its conviction in several measures. But this fact, as well as the uniform holdings of the Supreme Court, seems to have had but little weight. It must be acknowledged that the doctrine of *stare decisis* has received a severe blow, when a Court, whose claim to honorable distinction rests most largely on the consistency of its decisions, gives no consideration to five separate determinations, in which the meaning of the Constitution is passed upon without dissent by over a score of justices; when the fact that in one of these cases two of the presiding justices had been members of

[1] For full text of the opinion, as well as dissenting opinions of Justices Harlan, Brown, Jackson, and White, *vide* Pollock *vs.* Farmers' Loan and Trust Company, *et al.*, 15 Supreme Court Reporter, pp. 912–951.

the Constitutional Convention and were most qualified to speak upon the subject, while upon two other occasions, by a unanimous Court, the income tax had been held to be a duty, and not a direct tax within the meaning of the Constitution. In 1895, by a majority of but one man, it is determined that Chief Justices Chase and Waite, and Justices Wilson, Nelson, Miller, Strong, Bradley, and others, were in error, and the dissenting voices of twenty-three justices are overruled by the opinions of five men. Such a reversal of established opinion could only be warranted on the ground of new historical evidence as to the meaning of the term "direct taxes" in the eighteenth century. And this evidence was of the most indirect kind, and was far from conclusive. Considerable material indicating the existence of modified income taxes in the colonies at the time of the adoption of the Constitution was introduced by the appellants' counsel. From other sources were added notes from correspondents, fragments of debates and controversies, and the subsequently recorded opinions of members of the Convention. Yet this was far from convincing; and it is quite as reasonable to suppose that the framers of the instrument had in mind *l'impot unique* of the French Physiocrats, as that they appreciated the administrative distinctions followed by the Court.

The fiscal consequences of the decision may be quite as portentous as the legal and political ones. While the revenues are redundant, and the customs and excise adequate to supply all possible current needs of the government, the question is one of but little moment. In cases of emergency, however, the income tax is most essential

to an adequate fiscal policy. In time of war the customs duties are most unstable, as the experiences of the wars of 1812 and 1861 give evidence, and cannot be relied upon to satisfy any increased demands placed upon them. The excise in like manner is slow in yielding, and when imposed upon consumable commodities may work grievous injustice. No tax is so fitted for emergency purposes as the income tax; for its yield is immediate, the receipts capable of expansion to meet unforeseen exigencies, while its operations are in no sense obstructive to the freedom of industry and trade.

The result of the decision deprived the Treasury of about $30,000,000, about two-thirds of the sum needed to satisfy the deficit of 1895, which was something less than $45,000,000. The losses lay mainly in the department of internal revenue, and were traceable to the large withdrawals of spirits, taken from bond in the months previous to the date when the law of 1894 went into effect, and which greatly diminished production and receipts for the following fiscal year.

In addition to the duty upon incomes, the measure of Aug. 28, 1894, provided for a tax of two cents per pack upon playing-cards sold within the United States subsequent to Aug. 1, 1894, as well as an increase of twenty-two and one-half per cent in the rate upon distilled spirits, or from 90 cents to $1.10 per gallon, which increase was to be levied and collected upon all spirits in bond at the time of the passage of the Act or thereafter manufactured. This provision differed from previous legislation, in that the new rate was payable upon all spirits in bond rather than upon future production only. But, despite this provision, the gains which accrued to specula-

tors were enormous, for it was evident as early as June that the tax would be increased. As a consequence, production was very active during this period, and speculators and distillers withdrew spirits in great quantities in order to anticipate the increase of the rate. During the months of July and August, 1894, 26,500,000 gallons more of spirits were withdrawn from the bonded warehouses than during the same months of 1893; while the total withdrawals during the two months previous to Sept. 1, 1894, were 36,554,088. Upon these withdrawals the old rate of 90 cents per gallon was paid, with the idea of holding the product until the new duty went into effect, when the stock would be disposed of upon the basis of the new rate. Assuming that the advantage which accrued upon withdrawals during the months previous to July offset any overestimate, the gains to distillers and speculators could not have been less than seven million dollars, all of which should have been saved to the Treasury.

The measure further provided for an extension of the bonded period from three to eight years. In the past it has been the custom to collect the tax on tobacco, as well as the customs duties, when the commodity entered the market for consumption; but the principle has never been applied to spirits. The distiller has not only been required to pay the highest rate of tax imposed upon any product under the laws, but has been compelled to pay the same within a specified time, no matter what the demand for spirits or the condition of the market. This provision was frequently a cause of great hardship; and while an unlimited bonded period is not granted under the present law, as is permitted in

tobacco and malt liquors, it has been extended to eight years, a provision which affords great relief to producers. How burdensome the former law was is shown by the large number of failures which occurred among distillers and holders of stock during the early days of the recent commercial depression.

From this increase of the rate to $1.10 a gallon, an annual gain of twenty million of dollars is anticipated to the revenues.

The collections for the past three years from internal sources have been as follows, those for 1895 being under the revised rate: —

OBJECTS OF TAXATION.	1893.	1894.	1895.
From spirits and license taxes upon rectifiers, manufacturers, dealers, etc.	$94,720,260	$85,259,252	$79,862,627
From tobacco (chewing and smoking)	31,889,711	28,617,898	29,704,908
From fermented liquors and licenses	32,548,983	31,414,788	31,640,618
From oleomargarine	1,670,643	1,723,479	1,409,211
From income			77,131
Banks, bankers, etc.		2	
Miscellaneous, — including penalties, opium, playing-cards, etc.[1]	175,390	153,028	551,583
Aggregate receipts	$161,004,987	$147,168,447	$143,246,078

THE INCIDENCE OF THE INTERNAL TAXES.

The charge is not infrequently brought against the excise, as it now stands, that, although theoretically a tax upon luxuries, it is in reality a burden upon the

[1] The tax on opium yielded $41,000 in 1894, nothing in 1895; and the duty on playing-cards $382,403 in the latter year.

wage-receiving classes. It is these classes, it is contended, who form the largest consumers of liquors and tobacco; and it is just this class which it should be the first aim of the government to protect. The almost universal consumption of tobacco and malt liquors renders them, as a matter of fact, a necessity to the majority of the people; and the want is of such an intense order that it is usually satisfied even before those more essential to comfort. This objection rests largely upon the theory that all taxes upon commodities are eventually shifted to the consumer; that any addition to the cost of production in the form of a tax is forthwith added to price, and is thus diffused throughout the community. The substance of this argument is as follows: The manufacturer who pays the tax originally will not deduct the same from his profits, for in a system of free competition they are already at a minimum. He therefore views it as one of the essential increments of cost of production, and adds it to price, together with a profit for the use and advancement of capital. Otherwise he would cease producing. He cannot recoup himself from labor, nor from the farmer who produces the raw product. The same process goes on in the retail transaction, until the enhanced cost is eventually taken from the final payer, who consumes the product. But this theory is only true under conditions of perfect competition, conditions which, in the subjects under consideration, do not exist; for the production and sale of whiskey, malt liquors, and tobacco are, in a measure, subject to the laws of monopolistic value. Now, manifestly, the principle of diffusion recognized to be true in conditions of free competition is inoperative here, inas-

much as free competition does not exist. Profits are, therefore, not regulated by the mean average profits secured in other industries; for monopoly price is always fixed at the point where the largest sales and the largest net profits will be realized. The substantial truth of this theory is seen from an investigation of the influence of the changes of rate upon prices. During the course of the extraordinary system in operation during the war, the price of spirits sold over the bar did not vary. Whether the tax was two dollars, or fifty cents, a gallon, the retail price of the article remained practically the same. The recent experience in regard to tobacco shows the same phenomena, the tax being practically paid either by the producer or the dealer. A partial shifting of the tax is brought about by adulteration and the use of inferior grades of the article; but the unusual profits derived from the retail liquor and tobacco traffic, as seen from the fact that a large family may be supported from the income of a small establishment, as well as the practical concentration of the business of distilling, brewing, and tobacco manufacture into a few hands, which has taken place in recent years, leads to the belief that, unlike other commodities of universal consumption, the tax upon such articles as we are considering is, in part at least, extracted from monopolistic profits, and is by no means wholly shifted upon the consumer.

CONSUMPTION AS INFLUENCED BY TAXATION.

Reference has heretofore been made to the influence of taxation in determining prices and the consumption of such staple articles as food, clothing, and the like;

and the inference was drawn that taxes, if heavy, might be a factor of some importance in determining the standard of living of a people. During the debates in Congress, one of the reasons most frequently urged for the retention of the two-dollar rate upon distilled spirits was the deterrent effect expected upon consumption; for it is a principle well recognized in economic science that the demand for any article of general consumption is more or less dependent upon price. It is a current theory, however, that in certain articles for which the demand may be said to be "intense," this principle is in abeyance. For such articles the demand is said to be "inelastic," and varies but slightly with the alterations in price. Whiskey, malt liquors, and tobacco are held to be pre-eminently of this class of commodities, and for this reason are especially fitted for taxation.

Our own experience seems to demand some modification of this principle; for the consumption of whiskey, malt liquors, and tobacco, as found in the returns of the Treasury Department, indicate that the duties are to some extent reflected in consumption, although not in any exact ratio.

But little, if any, reliance can be reposed in the statistics of production prior to 1868, in so far as they are indicative of the consumption of these years, inasmuch as evasion was so universal, and production so irregular and speculative, that any attempt to measure the consumption by the amount returned for taxation would be misleading. Since that date, however, the reports offer data from which surer inductions can be made, although even these returns must be taken with considerable allowance. By reference to tables upon a

preceding page,[1] it will be seen that production was greatly stimulated in the two years immediately subsequent to 1868; the per capita production in 1870 being 2.03 gallons, and the total tax-paid product 78,500,000 gallons.

From this time on domestic production continued to decline until 1878; and the average per capita consumption fell from 2.03 gallons in 1870, and 1.58 gallons in 1873, to 1.07 and 1.09 gallons in the fiscal years 1878 and 1879 respectively. With the renewal of business during the years which followed, the annual taxed production increased from 50,704,189 gallons in 1878 to 79,616,901 in 1884, and the per capita production increased during the same years from 1.07 gallons to 1.45 gallons. During the period from 1871 to 1880, there was this marked reduction, both in the production of the country as well as in the amount consumed by the people; and this, too, notwithstanding an increase in the population of the country during the same period of thirty per cent. The tax-rate was increased twice during this period, — in 1872 to seventy cents per gallon, and in 1875 to ninety cents: but it is by no means safe to infer that the diminution in production, and consequently of consumption, is traceable to the increased rate; for a disturbing element enters in, in the unprecedented commercial depression, which, beginning in 1873, continued down almost to the end of the decade, and tended to check the consumption of all commodities.

Since 1880, again, the increase in the consumption of spirits has been continuous and rapid. During the succeeding decade, with an increase in the population of

[1] See p. 225.

24 per cent, the increase in consumption was 36.8 per cent, or a per capita consumption in 1890 of 1.35 gallons, as compared with 1.23 gallons in 1880. During the three years subsequent to 1890 the consumption has increased at an even more remarkable rate, growing out of all proportion to the increase in population; the annual increase in tax-paid production being 10,000,000 gallons, the per capita consumption in 1893 being 1.48 gallons. And just as the diminution in consumption during the previous decade is attributable to general economic and industrial conditions, so the increase recently recorded is due to the very general and widely diffused prosperity of the country. The country was growing rich at an unprecedented rate; wages were high; redundant crops, in the face of partial failure of European harvests, eased the distress of the farmer, and enabled him, along with the laborer, to improve his condition of life, and expend more on luxuries.

It is, moreover, to be borne in mind that these figures are only indicative of the amount withdrawn from bond during these years, and it is unsafe to assume that they accurately represent consumption; for, under existing statutes, spirits deposited in a distillery warehouse were compelled to be withdrawn, tax paid, within three years from date of entry. In the fiscal years 1884 and 1885 taxes thus became due upon an unusual amount of spirits, which were withdrawn in consequence of the three years limitation, and without regard for the demand for consumption. Many thousands of barrels were also withdrawn for export for the same reason, in subsequent years to be returned to the United States for sale. In this way overproduction in years of plenty

has operated to depress receipts in subsequent years, and to cause an apparent increase in consumption in others. The same disturbing elements prevailed during the years 1890, 1891, 1892, and 1893, when there was a steady increase in withdrawals of tax-paid spirits, due to heavy production in the years extending from 1887 to 1890. Sporadic increase or decrease in withdrawals is not, therefore, to be attributed to increase in consumption, or loss from evasion, until all the elements are taken into account.

When allowance is made for these influences, as well as the commercial depression extending from 1873 to 1880, it becomes doubtful if any great influence upon consumption can be attributed to the slight alterations in the rates. Unquestionably the imposition of the two-dollar rate in 1864 operated as an effectual check to household consumption, such as was well-nigh universal previous to that time; and the rate has been sufficiently high ever since to prevent its revival.

During the investigation of the Revenue Commission in 1865, testimony was taken upon this question; and, while considerable diversity of opinion was exhibited by experts on the subject, the Commission held that the imposition of the heavy duty had undoubtedly been a potent influence in determining consumption. Some estimated the reduction in consumption for drinking purposes consequent upon the imposition of the two-dollar rate in 1864 as high as seventy-five per cent, while others were unable to recognize any perceptible diminution. The discrepancy was due to the difference in the point of view of the observers, but it appeared conclusive to the Commission that a large reduction in con-

sumption was observable on the part of the working classes. Previous to the imposition of the tax, raw whiskey had been retailed at from fifteen to forty cents per gallon. At this cost it was possible for the very poorest to partake very freely of whiskey as a beverage, while it was the custom of agriculturists to buy whiskey by the barrel, and to dispense it freely for their hands during the season of harvesting.

With the advance in the price of the article to sixty cents per quart, and two dollars and twenty-five cents per gallon, such free use was rendered impossible; and while consumption over the bar has possibly remained more or less constant, the amount of home consumption has perceptibly diminished. Along with this, there was observable an increase in the consumption of malt liquors, which have been quite largely substituted for distilled spirits.[1] The statistics seem to establish that, while the original imposition of a high rate had a marked effect upon consumption, since 1868 the changes in the duty have not been sufficient to influence to any degree the price or the demand for the article. During the last thirty years the price of whiskey over the bar has not changed; and if any diminution in consumption has occurred, it lies in other directions.

It is probable, however, that the increase in rate has led to adulteration in the quality of spirits. With whiskey obtainable at twenty-five cents per gallon, as before the war, the consumer was assured a comparatively pure article, because the inducement to adulteration was but slight. But with a tax added thereto of from 200 to

[1] Report of Revenue Commission, p. 12.

400 per cent, the incentives to dishonesty are too great to be resisted.

A study of the statistics of consumption of tobacco and malt liquors does not materially modify these conclusions; although it appears that the demand for the latter articles was but little affected by the commercial depression of 1873, as the consumption increased at a pretty uniform rate during these years.

CONCLUSION.

Such is the history of the internal revenue system, from its inauguration by Hamilton over one hundred years ago, down to the present time. It has now become a recognized and essential portion of our financial order, and there is no possibility that it will soon be abandoned.

Upon this basis and under ordinary conditions, it is above reproach from an economic standpoint, while no department of the government is administered with greater fidelity, or is freer from reproach. However faulty it may have been at the period of its greatest extension, when the necessities of life formed the principal sources of revenue, the same objections cannot now be urged against it, reduced as it is to the smallest possible compass, and based only upon those articles recognized quite universally as deleterious both to the morals as well as the social well-being of the community. At the present time frauds have practically ceased, save in the outlying districts; and even these are rapidly being brought under federal supervision by the improvement of the means of transportation, and the encroachment of civilization into the heretofore sparsely populated districts.

As to the position which the excise will occupy in the future it is idle to conjecture. With the return of good times and the increase of customs revenue, certain por-

tions of it may be relinquished; but, in some form or other, it is safe to assume that it will always perform a substantial service in our budgetary arrangement.

And in view of the recent necessities of the Treasury, and the possible prospective demands for an increase of the revenues, owing to the determination of the Supreme Court in regard to the income tax, it becomes a matter of present interest to take stock of our resources. It would seem advisable, in case further reliance upon inland sources be found necessary, to look for the same from an increase in the rates on malt liquors and tobacco. The consumption of the former article as a beverage has of late years increased at a phenomenal rate, the quantity taxed per capita having doubled during the thirteen years subsequent to 1880.[1] Since 1863, when the duty was first imposed, the amount returned for taxation has increased from 62,000,000 gallons to 1,071,000,000 gallons, or an increase in the per capita consumption of from 1.86 gallons in the former year to 16.03 gallons in 1893. During the same years the revenues have increased from $1,558,000 in 1863 to $32,500,000 in 1893, while illicit manufacture is so difficult, owing to the fact that large and expensive plants are essential to production, that evasion may now be said to be nonexistent. What little fraud does exist is traceable to the re-use of stamps which have never been properly cancelled. Further reasons which indicate this commodity as especially fitted for further taxation is the low rate now existing upon it, — i.e. one dollar per barrel, or approximately twenty per cent ad valorem, — and the

[1] In 1880 the consumption was 8.25 gallons per capita; in 1893, 16.03 gallons.

large profits accruing from the manufacture and sale. It has been estimated that the average cost of beer over the counter is not in excess of one and three-fourth cents per glass, upon which a tax of one-fifth of one cent per glass is levied. An increase of the tax to double this amount, or to $2.00 per barrel, would be borne with comparative ease, the quality of the article would not thereby suffer, while the revenue would be increased to upwards of sixty millions a year.

The duties upon cigars and tobacco are likewise lower in the United States than in almost any other country. In 1890 all license taxes for the privilege of sale were removed, and the rates reduced to a uniform tax of six cents per pound upon manufactured tobacco, and to $3.00 per 1,000 upon cigars, regardless of quality. With these rates increased one hundred per cent, the revenues could doubtless be augmented to sixty million dollars; with the same rates imposed as prevail in Great Britain, to eighty-five millions; and with those levied in France, to one hundred and twelve millions.

The total revenue from the three sources of distilled spirits, malt liquors, and tobacco is now something over $141,000,000, a sum which could with comparative ease be increased to $200,000,000. With such a balance-sheet as this, and with such an unparalleled showing of resources, no apprehension need be felt for the future; for it is safe to assert that contemporary budgetary history makes no like exhibit of unopened resources and unemployed powers.

Whatever may be the contingencies which arise, and induce greater dependence upon the internal revenue system, any reasonable revenues can be secured from inland

sources without impairment of our industrial vigor, or even the creation of appreciable burdens. Our ability to sustain taxation, even the most onerous and vexatious, was abundantly demonstrated during the war; and since that time the rapidity of our industrial progress, as well as our growth in resources and opulence, has been unparalleled in the history of nations. While other countries, confronted with bankruptcy and a tax-burdened people, are vexed with the problems of expanding indebtedness and increasing tax-rates, America stands almost alone in the family of nations, with a debt whose extinction is only a matter of a few years.

At the present time our federal revenue system bears so lightly as to arouse scarcely a ripple of dissatisfaction; while the internal taxes alone, reduced as they are to small compass and levied at moderate rates, ordinarily produce to the Treasury sufficient revenues to satisfy the expenditures on behalf of the civil establishment, together with the war, navy, and Indian departments.

It is safe to assert that the records of modern history find no parallel to such a display of resources by a great nation.

APPENDICES.

APPENDIX I.

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APPENDIX II.

Schedule of Internal Revenue Duties, from 1862 to 1867.

A. Corporations, on Gross Receipts, and Personal Income Taxes.

Objects of Taxation.	Act July 1, 1862.	Act Mar. 3, 1863.	Act June 30, 1864.	Act Mar. 3, 1865.	Act July 13, 1866.	Act Mar. 2, 1867.
Railroads and Steamboats worked by steam	% 3	% 3	% 2½	% . .	% 2½	% . . .
Railroads and Ferry Boats not worked by steam	1½	1½	2½	. .	2½	. . .
Bridges, Toll	3	3	3	. .	3	Repealed
Telegraph Companies	. .	. .	5	. .	3	. . .
Insurance Companies	1	1	1½	. .	. . .	. . .
Express Companies	. .	2	3	. .	. . .	. . .
Advertising	3	3	. .	. .	. . .	Repealed
Theatres, Museums, etc.	. .	. .	2	. .	. . .	. . .
Lotteries	. .	. .	5	. .	5	. . .
Toll Roads and Bridges	. .	2	2	. .	3 % on receipts in excess of $1,000.	2½
Ferry Boats	. .	1½	1½	. .		2½
Personal Income[1]	. .	. .	. .	. .	. . .	. . .

[1] Act July 1, 1862. — 3 per cent on excess of $600; 5 per cent on excess of $10,000; 1½ per cent on incomes from United States securities; 5 per cent on incomes of United States residents abroad.

Act June 30, 1864. — 5 per cent on incomes between $600 and $5,000; 7½ per cent on incomes between $5,000 and $10,000; 10 per cent on incomes in excess of $10,000. Discrimination in favor of United States securities repealed.

Act Mar. 3, 1865. — 5 per cent on incomes between $600 and $5,000; 10 per cent on all incomes in excess of $5,000.

Act Mar. 2, 1867. — 5 per cent on all incomes in excess of $1,000.

B. Assessed Taxes known as Schedule "A."

Objects of Taxation.	Act July 1, 1862.	Act Mar. 3, 1863.	Act June 30, 1864.	Act Mar. 3, 1865.	Act July 13, 1866.
Private Billiard Tables . .	$10	Operations of the measure extended to Billiard Tables, Carriages, Plates, or Yachts kept "for hire or passengers."	$10	. . .	$10
Private Carriages	$1 to $10 ac. to val.		$1 to $10	. . .	Between $300 & $500, at $6; above $500 in value, at $10.
Private Pianofortes	. . . .		$2 to $6	. . .	Exempt.
Private Gold Plate	50¢ per ounce		50¢ per oz.	. . .	50¢ per ounce.
Private Silver Plate	3¢ per ounce		5¢ per oz.	. . .	5¢ per ounce.
Watches below $100 in value,	. . . .		$1	. . .	$1
Watches above $100 in value,	. . . .		$2	. . .	$2
Private Yachts	$5 to $10; and $10.00 on each $1,000, over and above $1,000.		$5 to $100	. . .	Exempt.

C. Legacies and Succession Duties.

Objects of Taxation.	Act July 1, 1862.	Act Mar. 3, 1863.	Act June 30, 1864.	Act Mar. 3, 1865.	Act July 13, 1866.
Lineal Issue, Brother or Sister[1]	¾ per cent	. . .	1 per cent	. . .	. . .
Descendant of Brother or Sister	1½ " "	. . .	2 " "	. . .	. . .
Uncle or Aunt or Descendant	3 " "	. . .	4 " "	. . .	. . .
Great Uncle or Aunt or Descendant . . .	4 " "	. . .	5 " "	. . .	. . .
Stranger in Blood	5 " "	. . .	6 " "	. . .	. . .
Husband or Wife	Exempt.	Exempt.	Exempt.	. . .	. . .

[1] Act 1862 applied only to personalty; that of 1864 extended to realty.

D. Stamp-Taxes on Instruments, Acts, and Evidences.

	Act July 1, 1862.	Act Mar. 3, 1863.	Act June 30, 1864.
Any agreement, per sheet	5¢.	Introduced slight changes in rates on Bills of Exchange, Certificates, Insurance Policies, Bills of Sale, Assignments of Mortgage, etc.	. . . .
Bank Check	In excess of $20, 2c.		In excess of $10, 2c.
Bills of Exchange, Inland	At rate of 5c per $100.		
Bills of Exchange, Foreign	Below $150, 3c, above $150 at a proportional rate.		
Bills of Lading	10¢.		
Express Receipt	1¢ to 5¢.		
Bond	25¢ and 50¢.		
Bond of Indemnity	. . . .		50¢ to $1.00.
Certificate of Stock	25¢.		
Other Certificate	2¢ to 25¢.		10¢ to 25¢.
Charter Party	$3.00 to $10.00		$1.00 to $10.00.
Contracts, bills of sale, broker's note of sale	10¢.		
Conveyance of Real Estate when consideration does not exceed $500	50¢.		
Conveyance — Consideration from $500 to $20,000	$1.00 to $20.00.		At rate of 50c. for each $500.
Conveyance — Consideration in excess of $20,000. On each $10,000	$20.00.		At rate of 50c. for each $500.
Telegraph Despatch	1¢ to 3¢.		
Bill of Entry	50¢ to $1.00.		25¢ to $1.00.
Insurance Policy, according to amount of insurance	25¢ to $1.00.		
Lease	50¢ to $1.00.		At 50c. for each $200 of rent in excess of $300.
Manifest	$1.00 to $5.00.		
Mortgage (up to $10,000)	Same as conveyances.		
Mortgage. Consideration $10,000 to $20,000	$15.00.		50c. on every $500 of Consideration.
Mortgage, each add'l $10,000	$10.00.		
Passage Ticket	50¢ to $1.00.		50¢ to $1.00.
Power of Attorney	25¢ to $1.00.		25¢ to $1.00.
Probate of Will	50¢ to $20.00.		$1.00, and 50c. on each $1,000 in excess of $2,000.
Protest	25¢.		25¢.
Receipts of Money	. . . .		2¢.
Warehouse Receipt	25¢.		10¢ to 25¢.
Legal Documents	. . . .		
Writ for Commence't of Suit	50¢.		50¢.

In the Acts of Mar. 3, 1865, July 13, 1866, Mar. 2, 1867, no important changes were made.

E. Licenses.

Trades, Etc.	Act July 1, 1862.	Act Mar. 3, 1863.	Act June 30, 1864.	Act Mar. 3, 1865	Act July 13, 1866.	Act Mar. 2, 1867.
Lottery-Ticket Dealers . . .	. . . .	$1,000	$100		. . . .	
Bankers	$100	. . .	Bankers an additional $2 for every $1,000 over $50,000 of capital. Wholesale liquor dealer same as other wholesale dealers.		Wholesale Liquor License from $100 up to $50,000.	
Wholesale Liquor-Dealers . .						
Theatre Keepers						
Circus Keepers	$50	Wholesale dealers' licenses made progressive from $50, and final rate of $25 per $100,000 of sales.	Wholesale license progressive at rate of $1 per $1,000. Pawnbrokers an additional $2 per $1,000 of loans.		Wholesale Dealers, $50 to $1.00 per $1,000 of sales.	
Wholesale Dealers, not Liquor,						
Pawnbrokers						
Distillers						
Brewers						
Brokers						
Coal-Oil Distillers						
Land-Warrant Brokers . . .						
Distillers less than 300 gal. .	$25	Builders and Contractors added.	Retail Liquor Dealers added.	Insurance Brokers added.		
Brewers less than 500 gal. . .						
Auctioneers	$20	. . .	Commercial Brokers added.	. . .	Auctioneers, $10 and $20.	
Retail Liquor-Dealers . . .						
Jugglers						

Retail Dealers, not Liquor					
Eating-House Keepers					
Tobacconists					
Confectioners					
Exhibition Proprietors					
Horse Dealers					
Livery-Stable Keepers	$10	Architects, Civil Engineers, Butchers, Owners of Stallions, Insurance Agents, added.	Cattle Brokers' Tax $1 per $1,000, Conveyancers, Intelligence Office and every other trade, business, or profession added.	Expressmen and Miners added. General clause struck out.	Apothecaries, Butchers, Confectioners, to pay an additional dollar per $1,000 on sales over $25,000.
Tallow Chandlers and Soap Makers					
Apothecaries					
Professional Men					
Manufacturers producing more than $1,000 worth per annum,					
Rectifiers	$25 for every 500 barrels rectified.				
Hotel Keepers	$5 to $200, according to rent paid.		At $10 below $200 rental; above $200, $5 per $100.		
Bowling Alleys, etc.	$5 per alley		$10 per alley		
Peddlers	$5 to $50		$10 to $50		
Photographers	$10 to $25				
Assayers			$100 to $500		

F. Excise upon Manufactures and Products.

Articles.	Act July 1, 1862. In Operation Sept. 1.	Act Mar. 3, 1863.	Act June 30, 1864.	Act Mar. 3, 1865.	Act July 13, 1866.	Act Mar. 2, 1867.
Spirits	20¢ gall.	60¢ gall.	$1.50 to Jan. 1, and $2.00 thereafter.			
Beer	$1 per bbl.	60¢	$1.00			
Mineral Coals	3½¢ per ton		5¢			
Coal Oil	10¢ per gall.					
Lard and Seed Oils	2¢ per gall.		5¢			
Gas	5¢ to 15¢ per 1,000 ft.		10 to 25¢	20% was added on almost all articles subject to an ad valorem rate.	This act reduced most of these articles to same status as law of 1864.	
Candles			5%			
Coal and Rock Oil	10¢ per gall.		20¢			
Ground Coffee	3 mills per lb.		1¢			
Ground Spices	1¢ per lb.					
Cotton	½¢ per lb.	1 2¢ per lb			3¢	2½¢ from Sept. 1
Sugar	2 mills to 1¢ per lb.[2]		2 and 2½¢ per lb.		1¢ and 2½¢	
Confectionery	1¢ per lb.					
Cavendish, Cut or Manufactured tobacco	10¢ to 15¢ pr lb.		15¢ to 35¢	15¢ to 40¢		
Soda	5 mills per lb.					
Snuffs	20¢ per lb.		35¢	40¢		
Cigars	50¢ to $3.50 per 1,000		$3 to $40	$10	$2 to $4	$5
Chocolate and Cocoa	1¢ per lb.					
Umbrellas	5%	3%			Exempt.	

Railroad Iron	$1.50 per ton.	. . .	$3.00 per ton	. . .	Exempt.	
Unenumerated articles .	3%	. . .	5%	6%	5%	
Ships	. . . .	2%	. . . . .	. . .	Hull exempt.	
Salt	. . . .	. . .	6¢ per cwt.	. . .	3¢	Exempt.
Auction Sales	$\frac{1}{10}$ %	. . .	$\frac{1}{4}$%	. . .	$\frac{1}{10}$ %	
Slaughtered Beasts—						
Horned, over 18 mos. .	30¢ per head	20¢	40¢ (over 3 mos.)	. . .	Repealed.	
Hogs, over 6 mos. . .	10¢ per head	6¢	10¢	. . .		
Sheep	5¢ per head	3¢	5¢	. . .		
Horned, under 18 mos.	5¢ per head	. . .	. . . . .	. . .		

[1] By act of March 7, 1864.

[2] Raised to 2 cents per lb. by special act July 16, 1862. The above schedule does not pretend to give all the articles which were subject to the tax, but includes the principal sources of internal revenue.

APPENDIX III.

A. Rates of Tax on Spirits Under the Different Laws which have been in Force.

	Tax per Gallon.	Acts Imposing Tax.	Acts Repealing Tax.	Length of Time Rates were in Force.
				Months.
Spirits distilled from whatever materials	$0.20	July 1, 1862	Mar. 7, 1864	18
	.60	Mar. 7, 1864	June 30, 1864	4
Spirits distilled from whatever materials, except grapes,	1.50	June 30, 1864	Dec. 22, 1864	6
Spirits distilled from whatever materials, except grapes, to April 1, 1865, and from whatever materials, except apples, grapes, and peaches, after April 1, 1865,	2.00	Dec. 22, 1864	July 20, 1868	43
Spirits distilled from grapes	.25	June 30, 1864	Mar. 3, 1865	9
	.50	Mar. 3, 1865	July 13, 1866	17
Spirits distilled from apples or peaches	1.50	Mar. 3, 1865	July 13, 1866	17
Spirits distilled from apples, grapes, or peaches	2.00	July 13, 1866	Mar. 2, 1867	6
Spirits distilled from apples or peaches	2.00	Mar. 2, 1867	July 20, 1868	17
Spirits distilled from grapes	1.00	Mar. 2, 1867	July 20, 1868	17
Spirits distilled from whatever materials	.50	July 20, 1868	June 6, 1872	48
	.70	June 6, 1872	Mar. 3, 1875	31
	.90	Mar. 3, 1875	Aug. 28, 1894	113
	1.10	Aug. 28, 1894	. . . .	. . .

B. Acts Imposing Tax on Fermented Liquors and Rates of Tax.

	Per Barrel.
From September, 1862, to March 3, 1863 (act July 1, 1862)	$1.00
From March 3, 1863, to March 31, 1864 (act March 3, 1863)	.60
From April 1, 1864	1.00

The act of March 3, 1863, provided that the tax on fermented liquors should be 60 cents per barrel from the date of the passage of that act to April 1, 1864. Hence, the tax of 60 cents per barrel having expired by limitation, April 1, 1864, the tax of $1 per barrel, under act of July 1, 1862, was again revived, which rate has continued in force under different acts since that date.

The act of July 13, 1866 (14 Stat., 98), changed the mode of assessing and collecting the tax on fermented liquors, and made the tax on them after Sept. 1, 1866, payable by stamps.

A deduction of 7½ per cent is allowed on the tax upon fermented liquors, making this tax in effect 92½ cents per barrel.

C. Date of Acts Imposing Tax on Tobacco, and Rates of Tax.

Tobacco.	Rate of Tax per Pound.	Acts Imposing Tax.	Acts Repealing Tax.	Length of Time Rates were in Force.
	Cents.			*Months.*
Smoking, made exclusively of stems	2	July 1, 1862	Mar. 3, 1863	6
Smoking, made exclusively of stems	5	Mar. 3, 1863	June 30, 1864	16
Smoking, prepared with all the stems in	5	July 1, 1862	June 30, 1864	22
Cavendish, plug, twist, fine-cut, valued at not over 30 cents per pound	10	July 1, 1862	Mar. 3, 1863	6
Cavendish, plug, twist, fine-cut, valued at over 30 cents per pound	15	July 1, 1862	Mar. 3, 1863	6
Cavendish, plug, twist, fine-cut, and manufactured tobacco of all descriptions, except smoking tobacco	15	Mar. 3, 1863	June 30, 1864	16
Snuff	20	July 1, 1862	June 30, 1864	22
Smoking, made exclusively of stems	15	June 30, 1864	July 13, 1866	25
Smoking, prepared with all the stems in, and fine-cut shorts	25	June 30, 1864	Mar. 3, 1865	9
Cavendish, plug, twist, etc., and fine-cut chewing	35	June 30, 1864	Mar. 3, 1865	9
Snuff	35	June 30, 1864	Mar. 3, 1865	9
Twisted by hand	30	Mar. 3, 1865	July 13, 1866	16
Smoking, of all kinds not otherwise provided for	35	Mar. 3, 1865	July 13, 1866	16
Cavendish, plug, twist, etc., and fine-cut chewing	40	Mar. 3, 1865	July 13, 1866	16
Snuff	40	Mar. 3, 1865	July 20, 1868	40
Smoking, not sweetened, stemmed, or butted	15	July 13, 1866	July 20, 1868	24

Twisted by hand, etc., and fine-cut shorts	30	July 13, 1866	July 20, 1868	24
Smoking, sweetened, stemmed, or butted	40	July 13, 1866	July 20, 1868	24
Chewing	40	July 13, 1866	July 20, 1868	24
Chewing, etc., smoking, etc., part of the stems removed	32	July 20, 1868	June 6, 1872	47
Smoking, exclusively of stems, etc.	16	July 20, 1868	June 6, 1872	47
Snuff	32	July 20, 1868	Mar. 1, 1879	129
All kinds, except snuff, cigars, cheroots, and cigarettes	20	June 6, 1872	Mar. 3, 1875	32
All kinds, except snuff, cigars, cheroots, and cigarettes	24	Mar. 3, 1875	Mar. 1, 1879	50
All kinds, except cigars, cheroots, and cigarettes	16	Mar. 1, 1879	Mar. 3, 1883	48
All kinds, except cigars, cheroots, and cigarettes	8	Mar. 3, 1883	Oct. 1, 1890	91
Smoking and manufactured tobacco and snuff	6	Oct. 1, 1890	. . . . .	. .

The Acts relating to the tax on manufactured tobacco and snuff went into operation immediately on their passage, except the following: Act of March 3, 1865, took effect April 1, 1865 ; act of July 13, 1866, took effect Aug. 1, 1866 ; act of June 6, 1872, took effect July 1, 1872 : act of March 1, 1879, took effect May 1, 1879 ; act of March 3, 1883, took effect May 1, 1883. (Rep. Com. Int. Rev., 1888, p. 136.) Act of Oct. 1, 1890 took effect Jan. 1, 1891.

The tax on manufactured tobacco and snuff first required to be paid by stamps. (Act of July 20, 1868.)

D. Date of Acts Imposing Tax on Cigars and Cigarettes, and Rates of Tax.

	Rates of Tax.	Acts Imposing Tax.	Acts Repealing Tax.	Length of Time Rates were in Force.
	Per M.			*Months.*
Cigars valued at not over $5 per M	$1.50	July 1, 1862	June 30, 1864	22
Valued at over $5 and not over $10 per M	2.00	July 1, 1862	June 30, 1864	22
Valued at over $10 and not over $20 per M	2.50	July 1, 1862	June 30, 1864	22
Valued at over $20 per M	3.50	July 1, 1862	June 30, 1864	22
Cheroots valued at not over $5 per M	3.00	June 30, 1864	Mar. 3, 1865	9
Cigars valued at not over $5 per M	3.00	June 30, 1864	Mar. 3, 1865	9
Valued at over $5 and not over $15 per M	8.00	June 30, 1864	Mar. 3, 1865	9
Valued at over $15 and not over $30 per M	15.00	June 30, 1864	Mar. 3, 1865	9
Valued at over $30 and not over $45 per M	25.00	June 30, 1864	Mar. 3, 1865	9
Valued at over $45 per M	40.00	June 30, 1864	Mar. 3, 1865	9
Cigarettes valued at not over $6 per 100 packages of 25 each,	1.00[1]	June 30, 1864	Mar. 3, 1865	9
Valued at over $6 per 100 packages of 25 each	3.00[1]	June 30, 1864	Mar. 3, 1865	9
Cigarettes made wholly of tobacco	3.00	June 30, 1864	Mar. 3, 1865	9
Cigars and cheroots made wholly of tobacco or of any substitutes therefor	10.00	Mar. 3, 1865	July 13, 1866	16

Cigarettes valued at not over $5 per 100 packages of 25 each	.05[2]	Mar. 3, 1865	July 13, 1866	16
Valued at over $5 per 100 packages of 25 each	.05[3]	Mar. 3, 1865	July 13, 1866	16
Cigarettes made wholly of tobacco or of any substitutes therefor	10.00	Mar. 3, 1865	July 13, 1866	16
Cigars, cigarettes, and cheroots valued at $8 per M or less,	2.00	July 13, 1866	Mar. 2, 1867	7
Valued at over $8 and not over $12 per M	4.00	July 13, 1866	Mar. 2, 1867	7
Valued at over $12 per M	4.00[4]	July 13, 1866	Mar. 2, 1867	7
Cigars, cigarettes, and cheroots of all descriptions	5.00	Mar. 2, 1867	July 20, 1868	17
Cigars and cheroots of all descriptions	5.00	July 20, 1868	Mar. 3, 1875	79
Cigarettes weighing not over 3 pounds per M	1.50	July 20, 1868	Mar. 3, 1875	79
Weighing over 3 pounds per M	5.00	July 20, 1868	Mar. 3, 1875	79
Cigars and cheroots of all descriptions	6.00	Mar. 3, 1875	Mar. 3, 1883	98
Cigarettes weighing not over 3 pounds per M	1.75	Mar. 3, 1875	Mar. 3, 1883	98
Weighing over 3 pounds per M	6.00	Mar. 3, 1875	Mar. 3, 1883	98
Cigars and cheroots of all descriptions	3.00	Mar. 3, 1883	. . . .	. .
Cigarettes weighing not over 3 pounds per M	.50	Mar. 3, 1883	. . . .	. .
Weighing over 3 pounds per M	3.00	Mar. 3, 1883	. . . .	. .

[1] Per 100 packages. [2] Per package. [3] Per cent. [4] And 20 per cent.

The act of July 1, 1862, went into operation Sept. 1, 1862.

The act of July 20, 1868, first required payment of tax on cigars by stamps.

APPENDIX IV.

Schedule of Articles and Occupations subject to Tax under the Internal Revenue Laws of the United States in Force August 28, 1894.

SPECIAL TAXES.

	Rate of Tax.
Rectifiers of less than 500 barrels a year	$100.00
Rectifiers of 500 barrels, or more, a year	200.00
Retail liquor-dealers	25.00
Wholesale liquor-dealers	100.00
Retail dealers in malt liquors	20.00
Wholesale dealers in malt liquors	50.00
Manufacturers of stills	50.00
and for stills or worms, manufactured, each	20.00
Brewers, annual manufacture less than 500 barrels	50.00
annual manufacture 500 barrels or more	100.00
Manufacturers of oleomargarine	600.00
Retail dealers in oleomargarine	48.00
Wholesale dealers in oleomargarine	480.00

DISTILLED SPIRITS, ETC.

Distilled spirits, per gallon	1.10
Wines, liquors, or compounds known or denominated as wine, and made in imitation of sparkling wine or champagne, but not made from grapes grown in the United States, and liquors, not made from grapes, currants, rhubarb, or berries grown in the United States, but produced by being rectified or mixed with distilled spirits or by the infusion of any matter in spirits, to be sold as wine, or as a substitute for wine, in bottles containing not more than one pint, per bottle or package	.10

	Rate of Tax.
Same, in bottles, containing more than one pint, and not more than one quart, per bottle or package	$0.20
And at the same rate for any larger quantity of such merchandise, however put up, or whatever may be the package.	
Stamps for distilled spirits intended for export, for expense, etc., of, each	.10

TOBACCO AND SNUFF.

Tobacco, chewing and smoking, fine-cut, cavendish, plug or twist, cut or granulated, of every description; tobacco twisted by hand or reduced into a condition to be consumed, or in any manner other than the ordinary mode of drying and curing, prepared for sale or consumption, even if prepared without the use of any machine or instrument, and without being pressed or sweetened; and all fine-cut shorts and refuse scraps, clippings, cuttings, and sweepings of tobacco, domestic or imported, per pound	.06
Snuff, of all descriptions, domestic or imported, and snuff-flour, sold or removed for use, per pound . . .	.06

CIGARS AND CIGARETTES.

Cigars and cheroots, of all descriptions, domestic or imported, per thousand	3.00
Cigarettes, domestic or imported, weighing not over three pounds per thousand, per thousand	.50
Cigarettes, domestic or imported, weighing over three pounds per thousand, per thousand	3.00

FERMENTED LIQUORS.

Fermented liquors, per barrel, containing not more than 31 gallons	[1] 1.00
And at a proportionate rate for halves, thirds, quarters, sixths, and eighths of barrels.	
More than one barrel of 31 gallons, and not more than 63 gallons, in one package	2.00

[1] A deduction of 7½ per cent is now allowed on the sale of stamps for fermented liquors, which reduces this rate to 92½ cents per barrel.

OLEOMARGARINE.

	Rate of Tax.
All substances heretofore known as oleomargarine, oleo, oleomargarine-oil, butterine, lardine, suine, and neutral; all mixtures and compounds of oleomargarine, oleo, oleomargarine-oil, butterine, lardine, suine, and neutral; all lard extracts and tallow extracts; and all mixtures and compounds of tallow, beef-fat, suet, lard, lard-oil, vegetable-oil, annotto, and other coloring matter, intestinal fat, and offal fat made in imitation or semblance of butter, or when so made, calculated or intended to be sold as butter or for butter, domestic, per pound	$0.02
Same, imported from foreign countries, per pound . .	.15

OPIUM.

Prepared smoking opium, per pound	10.00

BANKS AND BANKERS, OTHER THAN NATIONAL.

Circulation issued by any bank, etc., or person, per month	$\frac{1}{12}$ of 1 p. ct.
Circulation exceeding 90 per cent of capital, in addition, per month	$\frac{1}{6}$ of 1 p. ct.
Banks, etc., on amount of notes of any person, State bank or State banking association, used for circulation and paid out	10 per cent.
Banks, etc., bankers, or associations, on amount of notes of any town, city, or municipal corporation, paid out by them	10 per cent.
Every person, firm, association other than national-bank associations, and every corporation, State bank, or State banking association, on the amount of *their own notes* used for circulation and paid out by them,	10 per cent.
Every such person, firm, association, corporation, State bank, or State banking association, and also every national banking association, on the amount of notes of any person, firm, association, other than a national banking association, or of any corporation, State bank, or State banking association, or of any town, city, or municipal corporation, used for circulation and paid out by them	10 per cent.

PLAYING-CARDS.

	Rate of Tax.
Playing-cards, per pack, containing not more than fifty-four cards	$0.02

NOTE. — The internal revenue taxes on imported manufactured tobacco, snuff, cigars, and cigarettes are *in addition to the import duties thereon.*

The only taxes under the laws now in force not payable by stamps are as follows : —

Tax on deficiencies in production of spirits.
Tax on excess of materials used in production of spirits.
Tax on circulation of banks and bankers.
Tax on notes paid out by banks and others.
Penalties of 50 per cent and 100 per cent.

Table showing Receipts from each Specific Source of

ARTICLES AND OCCUPATIONS.	FISCAL YEARS ENDED JUNE 30.		
	1863.	1864.	1865.
	$	$	$
Distilled spirits	5,176,530.50	30,329,149.53	18,731,422.45
Tobacco, cigars, snuff, etc.	3,097,620.47	8,592,098.98	11,401,373.10
Fermented liquors	1,628,933.82	2,290,009.14	3,734,928.06
Banks and Bankers	. . . .	2,837,719.82	4,940,870.90
Penalties, etc.	27,170.14	193,600.48	520,362.70
Adhesive stamps	4,140,175.29	5,894,945.14	11,162,392.14
Manufactures and products of iron, wood, glass, paper, cotton, wool, leather, oils, gas, mineral products, etc.	16,524,989.24	36,222,716.67	73,318,450.37
Gross receipts, — Advertisements, canal, express, ferry, railroad, insurance, telegraph companies, theatres, museums, etc.	1,661,273.51	3,426,446.32	9,853,377.12
Sales, — Auction, broker, apothecary, butcher, etc.	64,003.87	141,231.58	4,062,243.54
Special taxes (licenses) on all occupations	4,799,195.73	5,205,508.94	9,806,914.25
Income (persons and corporations)	2,741,858.25	20,294,731.74	32,050,017.44
Legacies	56,592.61	311,161.02	506,751.85
Successions	. . . .	. . . .	39,951.32
Articles on Schedule A, pianos, billiard tables, carriages, plate, etc.	365,630.93	696,878.43	780,266.53
Miscellaneous collections, — Slaughtered animals, special Income Tax (1864), bank circulation, etc.	719,218.57	709,550.73	30,220,207.40
TOTAL	41,003,192.93	117,145,748 52	211,129,529.17

Revenue by Fiscal Years, from September 1, 1862.

FISCAL YEARS ENDED JUNE 30.					
1866.	**1867.**	**1868.**	**1869.**	**1870.**	**1871.**
$	$	$	$	$	$
33,268,171.82	33,542,951.72	18,655,630.90	45,071,230.86	55,606,094.65	46,281,848.10
16,531,007.83	19,765,148.41	18,730,095.32	23,430,707.57	31,350,709.88	33,578,907.18
5,220,552.72	6,057,500.63	5,955,868.92	6,099,879.54	6,319,126.90	7,389,501.82
3,463,988.05	2,046,562.46	1,866,745.55	2,196,054.17	3,020,083.61	3,644,241.53
1,142,853.20	1,459,170.80	1,256,881.59	877,088.79	827,904.72	636,980.35
15,044,373.18	16,094,718.00	14,852,252.02	16,420,710.01	16,544,043.06	15,342,739.46
127,230,608.66	91,531,331.31	61,649,902.56	3,345,362.95	3,017,027.70	. . . .
11,262,429.82	7,444,719.00	6,280,069.34	6,300,998.82	6,894,799.99	2,800,563.44
4,002,282.91	3,999,360.31	4,595,909.04	8,206,839.03	8,837,394.97	3,649,642.08
14,144,418.05	13,627,903.25	11,889,549.09	9,940,917.02	11,020,787.78	5,002,452.85
72,982,159.03	66,014,429.34	41,455,598.36	34,791,855.84	37,775,873.63	19,162,650.75
924,823.97	1,128,744.96	1,518,387.64	1,244,837.01	1,672,582.93	1,430,087.34
246,154.88	636,570.19	1,305,023.60	1,189,756.22	1,419,242.57	1,074,979.79
1,693,122.73	2,116,674.37	1,134,339.98	893,653.46	907,442.09	376,860.45
3,750,037.32	354,689.90	34,310.37	29,453.00	22,756.00	8,205.00
310,906,984.17	265,920,474.65	191,180,564.28	160,039,344.29	185,235,867.97	144,011,176.24

Receipts from Several Sources

	Spirits, Including Special License Fees and Other Charges.	Tobacco in all Forms, Including Special License Charges.	Fermented Liquors, Including Special License Charges.	Adhesive Stamps.	Manufactures and Products.	Banks and Bankers (Not National). (1)
	$	$	$	$	$	$
1870	55,606,094	31,350,708	6,319,127	16,544,043	3,017,028	3,020,084
1871	46,281,848	33,578,907	7,389,502	15,342,739	3,631,516	3,644,242
1872	49,475,516	33,736,171	8,258,498	16,177,321	4,616,145	4,628,229
1873	52,099,371	34,386,303	9,324,938	7,702,377	1,267,470	3,771,031
1874	49,444,089	33,242,876	9,304,680	6,136,845	764,880	3,387,161
1875	52,081,991	37,303,462	9,144,004	6,557,230	1,080,111	4,097,248
1876	56,426,365	39,795,340	9,571,281	6,518,488	509,631	4,006,698
1877	57,469,429	41,106,547	9,480,789	6,450,429	238,261	3,829,729
1878	50,420,815	40,091,755	9,937,052	6,380,405	429,659	3,492,032
1879	52,570,285	40,135,003	10,729,320	6,706,384	299,094	3,198,884
1880	61,185,509	38,870,140	12,829,803	7,668,394	228,028	3,350,985
1881	67,153,975	42,854,991	13,700,241	7,375,256	. . .	3,762,208
1882	69,873,408	47,391,989	16,153,920	7,569,109	. . .	5,253,458
1883	74,368,775	42,104,250	16,900,616	7,053,053	. . .	3,748,995
1884	76,905,385	26,062,400	18,084,954	. . .	. . .	442
1885	67,511,209	26,407,088	18,230,782	. . .	. . .	25,000
1886	69,092,266	27,907,363	19,676,731	. . .	. . .	. . .
1887	65,829,322	30,108,067	21,922,187	. . .	. . .	4,288
1888	69,306,166	30,662,432	23,324,218	. . .	. . .	4,203
1889	74,312,206	31,866,860	23,723,835	. . .	. . .	6,214
1890	81,687,375	33,958,991	26,008,535	. . .	. . .	70
1891	83,335,964	32,796,271	28,565,130	. . .	. . .	. . .
1892	91,309,984	31,000,493	30,037,453	. . .	. . .	. . .
1893	94,720,261	31,889,712	32,548,983	. . .	. . .	. . .
1894	85,259,252	28,617,899	31,414,788	. . .	. . .	226
1895	79,862,627	29,704,908	31,640,618	. . .	. . .	. . .

(1) The collections from National Banks have never been returned to the Commissioner of Internal Revenue, and are not included above.

(2) Collections from this source after 1873 are from penalties.

of Revenue from 1870 to 1895.

Oleomargarine.	Opium.	Collections not previously enumerated and Penalties. (2)	Total Collections from Internal Sources.	Total Collections from Customs.	Net Ordinary Receipts from all Sources. (3)
$	$	$	$	$	$
. . .	. . .	69,378,784	185,235,868	194,538,374	395,959,834
. . .	. . .	34,142,422	144,011,176	206,270,408	374,431,105
. . .	. . .	14,879,067	131,770,947	216,370,287	364,694,230
. . .	. . .	5,523,965	114,075,456	188,089,523	322,177,674
. . .	. . .	364,216	102,644,747	163,103,834	299,941,091
. . .	. . .	281,107	110,545,154	157,167,722	284,020,771
. . .	. . .	409,284	117,237,087	148,071,985	290,066,585
. . .	. . .	419,999	118,995,184	130,956,493	281,000,642
. . .	. . .	346,008	111,097,725	130,170,680	257,446,776
. . .	. . .	279,498	113,918,467	137,250,048	272,322,137
. . .	. . .	611,783	123,981,916	186,522,065	333,526,501
. . .	. . .	383,241	135,229,912	198,159,676	360,782,293
. . .	. . .	281,389	146,523,274	220,410,730	403,525,250
. . .	. . .	377,656	144,553,345	214,706,479	398,287,582
. . .	. . .	536,859	121,590,040	195,067,490	348,519,870
. . .	. . .	247,042	112,421,121	181,471,939	323,690,706
. . .	. . .	226,510	116,902,869	192,905,023	336,439,727
723,948	. . .	249,488	118,837,301	217,286,893	371,403,278
864,140	. . .	165,316	124,326,475	219,091,174	379,266,075
894,248	. . .	91,070	130,894,434	223,832,742	387,050,059
786,292	. . .	153,434	142,594,697	229,668,585	403,080,983
1,007,924	. . .	260,127	146,035,416	219,522,205	392,612,447
1,266,326	700	242,589	153,857,544	177,452,964	354,937,784
1,670,644	125	175,266	161,004,990	203,355,017	385,819,629
1,723,480	410	152,619	147,168,450	131,818,531	372,802,498
1,409,211	. . .	551,583	143,246,078	152,158,617	390,373,203

(3) Net ordinary receipts includes all of above collections as well as Public Land Sales, Miscellaneous Sources, and Dividends.

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Taxation and taxes in the United States

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